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Reagan Nominee Says SALT Talks Nine Months Off

By Michael Getler

WASHINGTON — Eugene V. ostow. President Reagan's nomi-e to head the U.S. Arms Control d Disarmament Agency, has es-nated that the administration Il not be in a position to enter gotiations with Moscow on reicing strategic auclear weapons

r at least nine months.

Mr. Rostow's comments at his nitrmation hearings before the nate Foreign Relations Commiton Monday provided a new blic timerable, even though a eliminary one, for such talks. it the committee chairman, Sen. narles H. Percy of Illinois, made clear that he felt nine months is too long to wait for one of e most crucial and critical areas : have to deal with."

Sen. Percy, a Republican, cited a agan campaign statement of Oc-ber, 1980, recalling that Mr. eagan had said that "as presint. I will make immediate prepation for negotiations on a SALTtreaty." The senator said that any people based their support Mr. Reagan on that statement.

Preliminary Contacts

* U.S. allies also view the strategic ims talks as crucial, Sen. Percy id, and going part way into the cond year of a Reagan presidento even begin them was a long ne to wait. "How long are we ing to delay this process?" Sen. rcv asked

Earlier this month, administran officials revealed that prelimiry contacts on the arms issue d been made. They said that retary of State Alexander M. ig Jr. and the Soviet ambassa-"i to Washington, Anatoli F. Donin, had arranged for high-level-ks during the summer to prere for an autumn meeting be-een Mr. Haig and the Soviet for-n secretary. Andrei A. Gro-

> Mr. Rostow said, however, that was going to take nine months or. to reach a point where the Unit-States knew what it was trying achieve and what kind of pro-sals to make. Although the ad-tified by the Senate.

ministration has had an interdepartmental study group on arms control set up since February, Mr. Rostow told the panel that "as of this moment, I don't know anybody in this government with whom I've talked who knows what it is we want to negotiate about."

Truman Doctrine

He called the issue extremely complex and said that proposals made in haste and without a thorough intellectual basis could easily founder. A Yale law professor and a Democrat who served as undersecretary of state in the Johnson administration, Mr. Rostow also laid out U.S. policy toward Moscow on arms and other issues in some of the most specific terms used thus far by the Reagan administration.

Mr. Rostow called for a policy. to be developed in conjunction with U.S. allies, that would link arms limitation negotiations to "the effective revival of the Truman Doctrine" of containing the Soviet Union by "collective selfdefense against aggression." It also would require Moscow to accept the rules of the UN Charter re-

garding international use of force. He suggested that proposals for large arms cutbacks on both sides "might be feasible, perhaps start-ing with the largest missiles." The Reagan administration is known to be interested in proposals in-volving big mutual reductions in missiles. Even though Carter administration proposals along those lines were dismissed by Moscow in 1977, Mr. Rostow said that "no American administration could reject such a possibility out of hand" because "the world is becoming so unstable ... that agreements which now seem hopelessly quixot-ic may well become practical poli-

Mr. Rostow also suggested that to signal continued U.S. interest in arms control, the administration should support the Threshold Test Ban Treaty and the treaty on use of underground nuclear explosions for peaceful purposes, negotiated with Moscow by the Nixon and Ford administrations but never ra-



French Socialist Party Secretary Lionel Jospin, left, and Georges Marchais, the Communist leader, shaking hands after their discussions on the next Cabinet ended early Tuesday morning,

2d Hard-Line Pro-Soviet Group Emerges Within Party in Poland

By Brian Mooney

WARSAW — A new group of

hard-line Communists approved by Moscow emerged in Poland on Tuesday in what appeared to be a stepped-up campaign against the Polish party's reformist majority. Poles were informed about the group, the Poznan Communist Forum, in a Tass report that was pub-

lished in major dailies. Informed Soviet sources said the Poznan forum was founded a week ago in sympathy with a similar unofficial forum in Katowice, which issued a statement Monday night attacking liberal trends in

the official mass media. Until the Tass report Tuesday, there had been no mention of the Poznan forum in the Polish press.

or check the reforms since last summer's labor revolt, have found only a small constituency in Poland but they are receiving increas-ing support from elsewhere in the

Soviet-bloc pressure on Poland.

 Poland has asked \$500 million in emergency aid from Com-mon Market states. Page 2.

visible mainly in the mass media. was clearly linked to next month's special party congress, which is exnected to sanction most of the democratic gains of the last 12

Western diplomats in Warsaw said that with the congress sched-uled to begin in three weeks, on July 14, they expected the pressure About 80 percent of the dele-

gates being elected to the congress are newcomers and the meeting seems certain to result in substantial changes in the ruling party's upper echelons. But informed party sources said they did not expect the congress to

produce any spectacular departures from Communism that could strain Kremlin patience beyond the breaking point. Both the Poznan and Katowice groups have issued warnings against radical trends in the ruling

party and the Poznan group appealed to the delegates to elect leaders who would guarantee orthodox Marxism. The two groups have both criti-cized the official media in an attempt to persuade the party leader. Stanislaw Kania, to carry out his

promises to crack down on anti-Communist tendencies in the The Poznan forum, which the Soviet sources said had 400 members, called on the authorities to fire editors and reporters responsi-

It echoed Monday night's state-ment by the Katowice forum. which charged that it had not been given a fair hearing in the official

ble for anti-Communist tenden-

The Polish press has become the freest in the Soviet bloc and its journalists are led by a Communist reformer, Stefan Bratkowski, who

has a wide following.
Soviet-bloc criticism has also been leveled against publications of the Solidarity trade union move-

The chairman of the Polish-So-

Wronski, said Monday that Solidarity's publications were promoting a wave of anti-Soviet sentiment in direct contradiction to the union's charter.

> editor of one of its regional bulletins had been summoned by a prosecutor in the town of Pila for alleged infringement of the 1946 censorship law. The summons was believed to be the first of its kind against the union.

Solidarity said Tuesday that the

Meanwhile, the Radom branch of the National Unity Front appealed to the Sejm (parliament) to withdraw the mandate of deputy Janusz Prokopiak, former party chief in the region.

The front, a government-sponsored umbtella organization, acted under pressure from the local Solidarity branch, which holds Mr. Prokopiak responsible for the brutal suppression of a workers' protest in Radom in 1976.

Bulgaria Accuses Polish Leaders

VIENNA (AP) — Bulgaria lodged a strong complaint against Poland's Communist leaders Tuesday, accusing them of being unable to act against "adversaries of Socialism.

Commentator Alexander Alexiev said in a dispatch carried by Bulgaria's official news agency that "true patriots" in Poland were calling for a "counterattack against reaction."

The commentary came less than 24 hours after disclosures that both Bulgaria and Hungary had sent special missions to Warsaw to urge a crackdown along Soviet-demanded lines.

Ghana Reports Heavy Fighting

ABIDJAN, Ivory Coast — Hundreds of people, including children, have been killed in fighting at Bimbila in eastern Ghana, Ac-

cra radio said Tuesday.

The radio, monitored in Abid-jan, said members of a "rescue regiment" had been flown from Accra

to deal with the situation.

At the end of April and begining May, about 600 people were killed in lighting between Kokomba and Nanumba tribesmen in the same area, 235 miles (375 kilometers) north of Accra.

By Jonathan Kandell ward. But Mr. Mitterrand and his So-cialists have argued that the Com-PARIS — The Socialist govern-ment named four Communists to munists emerged from the recent he Cabinet on Tuesday, making

France the first major Western country to invite Communists into national office since the reconstruction years immediately fol-lowing World War II. The appointment of the four officials was announced after the Communist leadership signed an

accord with the Socialists retreating on some of its pro-Moscow positions in foreign affairs and aligning itself more closely with President Francois Mitterrand's policies at home and abroad. The Communists named to

Prime Minister Pierre Mauroy's Cabinet included: Charles Fiterman, minister of transport: Anicet Le Pors, minister of administrative reforms: Jack Ralite, minister of health; and Marcel Rigout, minis-

ter of vocational training.

None of the posts are considered to be among the major ministries. As part of his Cabinet shuf-fle. Mr. Mauroy also appointed Robert Badinter, a distinguished Socialist lawyer, as minister of jus-tice, and Pierre Dreyfus, a Socialist who once directed the state-owned Renault automobile company, as minister of industry. Mr. Dreyfus replaced Pierre Joxe, a Socialist whose more radical opinions had drawn criticism from the business

The decision to bring Communists into the government may unsettle France's allies abroad and private investors. By coincidence. Vice President Bush is scheduled to arrive in Paris for a one-day visit on Wednesday and will meet with Mr. Mitterrand and other government officials.

Security Risk Feared

Some Western officials believe that the appointment of Communists to even minor Cabinet posts entails a security risk. There are also fears that the decision could set a precedent for Italy, where the Communists are far stronger than in France.

Among investors, particularly conservative Arabs who hold large accounts in France, the inclusion might strengthen fears that the

French Government

Names 4 Communists

To Ministerial Posts

National Assembly elections in such a weakened state that they have no power to determine government policies or block legisla-

The president is said to feel that by inviting the Communists into office, he will encourage a more moderate conduct by the party, pay back his debt to the several million Communist voters who helped to elect him, and forestall any future moves by a disgruntled party leadership to stir trouble in the trade-union movement, where Communist influence remains

Socialist leaders have also maintained that Communist ministers

country is veering sharply left- would have no access to sensitive foreign-affairs or military informa-

> Georges Marchais, the Communist secretary-general, and other Politburo members pressed for a role in the government to salvage in part what has been a disastrous political turn for the party. In the recent presidential and legislative elections, one-fourth of Communist voters abandoned the party's candidates in favor of the Socialists. Dropping to its lowest electoral levels in 45 years, the party gained only 44 seats in the 491member National Assembly, about half its total in the previous legisla-

> Mr. Marchais is now expected to try to quell dissatisfaction in the Communist ranks by arguing that internal disputes should be set

(Continued on Page 2, Col. 3)



PARTY GAINS - Bettino Craxi, the Italian Socialist leader, displays the front page of a newspaper announcing

Bani-Sadr Said to Stay in Iran

By Barry May

TEHRAN — Abolhassan Bani-Sadr, who was dismissed Monday as president of Iran by Ayatollah Ruhollah Khomeini, was still in the country Monday night, the Tehran revolutionary prosecutor said Tuesday.

"He has probably not yet gone

out of the country," the prosecutor, Assadollah Lajverdi, said at a news conference in Tehran's Evin Prison following an announcement that nine more opponents of the government had been executed by firing squads Monday night. A powerful bomb exploded ear-

ly Tuesday morning in the railway station of Qom. 80 miles (130 ki-lometers) south of Tehran, killing four persons and wounding 58, the state radio reported. Qom is the main center of the ruling Shiite Moslem clergy.
At least 32 persons have been

executed since the weekend, when factional violence over Mr. Bani-Sadr in the streets of Tehran resulted in 25 deaths.

The executions followed swiftly, and Ayatollah Mohammadi Gilani, the judge who signed the death warrants, said at the prison news conference that the accused "were infidels and must be executed." He added that opposition to

Iran's Islamic regime was suffi-cient to judge a person an infidel.

He denied that children aged 13 and 14 were among those executed. "None was less than 17." he said, "but in any case, on the basis of Islam, a 9-year-old girl is considered mature."

Mr. Lajverdi, the Tehran prosecutor, said about 400 people had

 The Iranian spotlight is now on Ayatollah Mohammed Beheshti, head of the Islamic Republican Party. Page 3.

been arrested in the weekend clashes and 25 of them had been

executed. He said the revolutionary court had forgiven all who had repented, but he did not say how many had been freed.

He said 25 friends and col-leagues of Mr. Bani-Sadr had been arrested but not yet charged. He

did not identify them. If Mr. Bani-Sadr is arrested, Mr. Lajverdi said, it is possible he will be pardoned. "But of course, it is

tainly." he added. The prosecutor denied a report that he had ordered the arrest of former Foreign Minister Sadegh Ghotbzadeh, but he noted that

members of the Revolutionary Guard and security centers had a general order permitting arrests in emergencies. The Tehran Times said that Mr.

Ghotbzadeh, a supporter of Mr. Bani-Sadr, had been arrested Monday. A spokesman for Mr. Ghotbzadeh said the report was false, but he said he had no information on the former foreign min-

ister's whereabouts. The revolutionary prosecutor of two western provinces was quoted by the newspaper Islamic Republic as saying that Mr. Bani-Sadr was in western Iran. There was no official reaction to reports from Cairo

that Mr. Bani-Sadr was there.

Protest in Hamburg HAMBURG (Reuters)

About 30 Iranian men overran the Iranian Consulate in Hamburg on Tuesday, smashing offices and destroying portraits of Avatollah Ruhollah Khomeini, the Iranian leader, police said. The men, most of whom fled be-fore police arrived, said the action

be pardoned. "But of course, it is was to protest the execution in possible he will be punished, cer- Iran of 23 leftists, including the writer Savid Soltanpour.

In Paris, about 300 Iranian students demonstrated outside the Iranian Embassy against repres-

Caribbean Aid Plan Faces Test

New York Times Service

MEXICO CITY - Despite the unexpected agreement by President Reagan and President José López Portillo of Mexico in their talks earlier this month to work out a joint economic aid package for the Caribbean basin, the initiative faces formidable political dif-

In reality, the much-vaunted assistance plan for the region is still at an embryonic stage, with the World Bank, the Inter-American Development Bank, Venezuela and Canada eventually expected to join the United States and Mexico in financing and implementing it. Yet questions are already being

raised in the region about the viability of a plan that seeks to isolate economic problems from the sharp political differences that exist, not only within and between the countries of the area but also among potential aid donors.

"If anyone thinks that economic aid can resolve the political crises in El Salvador and Guatemala, they're simply naive," a regional economist said, citing two Central

NEWS ANALYSIS

American countries polarized by extremist violence.

Further, while the Reagan administration initially portrayed the economic development plan as a way to contain Communism, Mr. López Portillo insisted in Washington last week that it should not involve military aid, should not be directed against the Soviet bloc and should not exclude any country in the region, a clear allusion to the leftist governments in Cuba,

Nicaragua and Grenada. In a Washington briefing last weekend, an administration trade official argued that there was no impediment to Mexico's aiding the three leftist-governed countries sign its own program. He indicated that the United States would emphasize private investment and trade concessions in its own ap-

since each donor nation would de-

Current U.S. thinking is that the Caribbean program — unlike the Marshall Plan that helped rebuild Western Europe after World War Il and the Alliance for Progress that provided economic and military aid to Latin America in the 1960s - should not involve a single. American-controlled development fund but should coordinate existing and new bilateral aid pro-

Although the United States appears to recognize the new political role being played in the region by Mexico, Venezuela and Canada and is anxious that they share the financial burden of the development plan, many officials in the area are skeptical that enough

(Continued on Page 2, Col.1)

LASSIFIED I CALLS WILLS &

SOVIET MEETING - President Leonid I. Brezhnev, bottom row at right, conferring with Premier Nikolai A. Tikhonov on Tuesday at the opening of a two-day session of the Supreme Soviet. In the middle row are Arvid Pelshe, head of the party control board, at left, and Mikhail Solomenstev, premier of the Russian Republic. In the top ow are Yuri Andropov, head of the KGB security police, and Foreign Minister Andrei Gromyko. Details, Page 2.

Hua Reportedly Resigns at Party Meeting

Los Angeles Times Service PEKING — Communist Party nairman Hua Guofeng has re-ined, admitting "serious errors" leadership, at the start of a ceing of the party's policy-makg Central Committee, Chinese

urces report.

Mr. Hua, who had fought for a ne to retain the post, is expected be succeeded by Hu Yaobang. e party general secretary and the inel lieutenant of Deng Xiaoping. ie party's powerful deputy chair-

The 215-member Central Comnce his achievements and mis- in July. cokes, venerating him as a great volutionary but abrogating most I his policies.

differences on both questions delayed the meeting for more than

nine months. Also on the Central Committee's agenda, the sources said Monday, are a reaffirmation of the policy followed for the past 2½ years under Mr. Deng's leadership, particularly the restructuring of the country's economy and his proposals for reorganizing the par-

A full review of Chinese foreign policy, especially the emerging alliance with the United States, Japan and Western Europe, has also been vittee is also discussing a contro- drafted for the Central Commitersial and long-delayed assess- tee's consideration, the sources unt of Mao in an attempt to bal- said, and will probably be issued

The meeting began last week with a preliminary discussion of all the issues and went into formal Taken together, replacing Mr. session over the weekend, according to informed Chinese sources. ult move, and the formal Mao The session is expected to con-assessment will mark the end of clude later this week, with the Mao

assessment to be issued on the party's 60th anniversary, July 1. Government spokesmen said Monday they could not comment

on these accounts of the meeting nor even confirm yet that the for-mal session had begun. Usually well-informed officials said that the meeting was being held under heightened secrecy because of the controversy surrounding several questions, including the Mao appraisal and the replacement of Mr. Deng's Consensus

Mr. Hua's resignation at the outset of the meeting was reportedly accepted by a large majority in a vote of Central Committee members, demonstrating the success Mr. Deng has had with compromise and ezjolery in rebuilding his consensus over the past six

Mr. Deng had sought to replace Mr. Hua, Mao's chosen successor. with Mr. Hu last autumn and even

step aside, but the deal collapsed when Mr. Hua accused Mr. Deng of reneging on its terms. The prin-cipal issue. Chinese sources said then, was the harshness of the proposed Mao assessment and the de-gree to which Mao's policies were to be abandoned. Mr. Deng convened a series of

major conferences through November. December and January in an attempt to force Mr. Hua out. charging him with opposing the country's new, post-Mao forces. But Mr. Deng encountered intense resistance within the party bureaucracy and the military and among groups that supported his goals but objected to his tactics.

threw the country into political turmoil, requiring extensive efforts to calm it. Preparations for the current

(Continued on Page 2, Col. 6)

The setback, by far Mr. Deng's

greatest since he returned to power

after the Cultural Revolution.

Zambia expels two senior U.S. diplomats and declares four others, no longer in the coun-

U.S. Tax Bill

try, persona non grata, al-legedly for spying. Page 3.

A special supplement on banking and finance in Lux-

INSIDE

Envoys Ousted

The U.S. Senate Finance Committee approves three major provisions of a tax-relief bill, including a cut to 50 per-cent from 70 percent in the maximum tax rate individuals

pay on investment income.

Luxembourg

embourg appears on Pages 7S-

Swiss Asked to Save Romansh 4th Language Fast Becoming Dead One, Study Says

United Press International

- Switzerland's fourth language. Romansh, is becoming extinct. The two dialects of this descendent of Latin can still be heard in the mountainous canton of Graubunden in eastern Switzerland. But only about

32,000 of the canton's 165,000 inhabitants speak it, compared with 44,000 just 20 years ago and more than 100,000 before World War II. Newspapers and magazines written in Romansh have all but disappeared.

An appeal has been made to the Swiss govern-ment to save Romansh by making it an official as well as a national language. German. French and Italian are the country's official languages, and all are used in the parliament. Swiss citizens can use any of them to communicate with authorities.

Romansh, although the fourth national language, lacks such official status. "If nothing is done to correct the situation within the next 10 years. Romansh will be clinically dead inside one generation," the government has been warned in a report by the Rhaeto-Roman Institute, a private foundation.

The report was written by Jean-Jacques Furer, a Swiss linguist. "Romansh is disappearing because it is useless, and it is useless because it has been deprived of its usefulness." Mr. Furer said.

People in the more remote and poorer villages where the language is mainly found are increasingly moving to the towns to find work, he said. There they have to speak German - the language of 65 percent of the 6 million Swiss - and give up Romansh, which everyone else finds incom-

The report recommended several urgent steps

steps to save the language, including:

• Recognition of Romansh as an official lan-

· Permission for Romansh to be used in schools and for examinations to be taken in the

 Creation of a Romansh university • Financial assistance for the establishment of small factories and other enterprises in the Romansh-speaking areas, so that residents will

not have to leave. Government funding of a Romansh newspa-

Romansh is part of a small group of languages called Rhaetian, after the Rhaetian Alps along the Swiss-Italian border. Its two dialects, Sursilvan and Sutsilvan, are spoken on either side of the Rhine valley - Sursilvan on the western bank and Sutsilvan on the eastern bank.

and regional elections showed So-

cialist gains averaging nearly 4 per-

cent over the previous elections in

Other small, non-Catholic par-

ties that formed part of recent coa-

litions - the Social Democrats

and Liberals - also registered

The Christian Democrats, Italy's

largest party, lost ground in most

places, but not to the extent that

some political commentators ex-

pected in view of the recent wide-

spread outcry against the party be-

cause of recurring political corrup-

The Communist Party lost heav-

ily in southern Italy and Sicily, but

held its own in Rome and northern

Italy. The voting indicated that many Italians who normally vote

Communist had switched to the

Socialists or the smaller non-Cath-

End of Polarization

the results marked the beginning of the end of the polarizing of the Italian vote between the Christian

Democrat and Communist parties.

to Mr. Craxi, who has ended his party's former role as a junior to the Communists and led it on a

Most of the credit for this went

Political commentators said that

tion scandals.

Craxi Sees Vote as Aid to Cabinet Effort

ROME — Bettino Craxi, the Socialist leader, said Tuesday that the strong showing of his party in the weekend local elections was an indication of support for Giovanni Spadolini's attempt to form a new

"I hope the premier-designate will present his list of ministers as soon as possible," Mr. Craxi said as he emerged from a two-hour consultation with Mr. Spadolini, the premier-designate and Republican Party leader.

The statement ended speculation that Mr. Craxi, after the Socialist election gains, might with-draw his support from Mr. Spadolini in an attempt to force new national elections.

But Mr. Craxi, whose withdrawal of support forced Arnaldo For-lani's resignation as premier May 26, said it was his impression that local elections gave Mr. Spadolini's government-forming efforts a

"strong acceleration." Overall results in the voting by nearly a quarter of the Italian electorate in city council, provincial

Political Problems Seen Over Caribbean Aid Plan

(Continued from Page 1)

common political ground can be found for the plan to succeed. However, with the economic crisis in Central America provoked by high oil-import bills and de-pressed raw-material prices, there are signs that with the exception of Guatemala, the governments of the region may be willing to put aside their political differences in favor of a common economic strategy aimed at reviving the near-de-funct Central American Common

An economic analyst noted that the military government in Hondu-

Liberia Detains **Soviet Freighter** To Check Cargo

berian authorities have detained a year break. It has also suspended Soviet cargo vessel bringing munications equipment for the Soviet Embassy here.

Col. Larry Borteh, chairman of the military government's national security committee, said Monday that the 6,551-ton Ivan Byelostotskiy would not leave until Liberian experts had checked the equipment. He gave the order after a sharp exchange of words at Monrovia's free port with the Soviet chargé d'affaires, who shouted "sheer nonsense" as Col. Borteh spoke.

The incident followed the departure earlier in June of 13 Soviet diplomats and wives after Liberian rold the Soviet Embassy to reduce its staff.

The Soviet vessel berthed here last Thursday. The next day its crew decided to unload three cases of communications equipment port sources said. But the cargo was intercepted by a warehouse supervisor on the grounds that it was near closing time, and a scuffle broke out between the Soviet crewmen and the Liberian port work-

On Monday, Col. Borteh and Foreign Ministry officials went to the free port and demanded to see the cases. The Soviet charge d'af-faires said that since the equipment had been for the diplomats who had left Liberia, it would now he taken back to Moscow.

Earthquake Strikes Peru The Associated Press

LIMA — An earthquake measuring 5.1 on the Richter scale struck Monday near Vinchos in southern Peru, killing at least one person, injuring dozens and collapsing hundreds of buildings.

ras, the democratic authorities in Costa Rica and the revolutionary government in Nicaragua all faced the same economic problems.

In El Salvador and Guatemala, economic crises have been brought on by internal political strife. With the military-backed governments in both countries committed to crushing leftist insurgencies, many diplomats in the region believe that economic aid will have little effect until political stability is re-

The sharpest political differences among potential donor coun-tries involve Central America. where the United States and Mexico, in particular, are at loggerheads over the causes of and answers to the political violence in El Salva-

dor and Guatemala. Blaming Cuba for the leftist in-surgencies, the Reagan administration has increased economic and military aid to El Salvador and Honduras while resuming arms MONROVIA, Liberia — The Li-sales to Guatemala after a foureconomic aid to Nicaras reprisal for its alleged aid to Salva-

doran guerrillas Mexico, on the other hand, has increased assistance to Nicaragua and has strongly criticized Ameri-can policy in El Salvador, arguing for a political settlement between the U.S.-backed junta and the Marxist-led Democratic Revolu-

tionary Front. Although American officials have assured Mexico that military aid would not be part of the regional development plan, Mexican officials are nevertheless concerned about the continuing U.S. preoccupation with security ques-

'We can't associate ourselves with Washington on an economic program if we are working at cross-purposes politically," a Mexican official said.

End Is Proposed To Madrid Talks

MADRID - Switzerland's chief delegate to the long-stalled Conference on Security and Cooperation in Europe has said that the conference to review the 1975 Helsinki accords was losing credibility, and he asked that it conclude its work by the middle of next month.

At a plenary session on Monday of the 35-nation conference, which started in November and is almost four months beyond its original closing date, Swiss delegate Guido Brunner offered a resolution asking delegates to "express determi conclude its work by mid-July in a positive and substantive manner."

EEC States For Money \$500 Million Sought

Poland Asks

In Urgent Assistance

LUXEMBOURG - Poland has asked European Economic Community governments for \$500 million in urgent financial assistance to help it service its debts and get new international credits, community sources said Tuesday.

The Polish requests have been made to individual governments in the last few days. Britain, France, West Germany and Italy have all been contacted, the sources said.

The requests came before a meeting Wednesday in Paris at which a group of international banks will try to reach agreement on extending repayment of \$2.37 billion in commercial loans to Poland falling due this year.

EEC foreign ministers discussed the Polish aid requests in informal talks in Luxembourg on Monday night, and EEC sources said Poland would be a major topic at a community summit in Luxem-bourg on June 29-30.

Coordination

Foreign Minister Christoph van der Klaauw of the Netherlands, the head of the EEC Council of Ministers, said that he had urged governments to coordinate their response to the Polish requests on

a community basis. Dutch diplomatic sources said next week's summit would proba-bly agree on a new aid package for Poland. But they said the timing had to be handled carefully, before the opening of the Polish Commu-

nist Party congress on July 14.

The EEC has already provided Poland with food at reduced prices and helped to promote some res-cheduling of the country's heavy international debts.

In Paris, 19 banks representing Poland's 460 creditor banks will try for the second time to agree on financial relief for Poland from its loan repayments, banking sources

Poland, with total debts of \$15 billion to commercial banks, is grappling with a deep economic crisis as Moscow continues heavy psychological pressure over the democratic reforms of the past

In April, Warsaw secured an extra eight-year breathing space on repayments due this year of \$2.6 billion of official loans from 15 Western governments.

The terms, which included deferring repayments of both principal and interest payments, were seen as generous by many private bankers who insist on the maintainance of interest payments as a condition of postponing capital re-

Wednesday's meeting will seek close the gap between U.S. banks on the one hand and European and Japanese banks on the other over the time period for any

sources said. Many European creditors favor rescheduling the debt over seven to eight years with interest set at between 1% percent and 1% percent above the rate now charged in interbank deals in London, the sources said. U.S. banks will push for a freeze on repayments of Polish debt principal for this year only, while the Poles are asked to furnish detailed information on their economy and outstanding



Husak of Czechoslovakia listening to their countries' national anthems just after Mr. Karmal's arrival in Prague on Tuesday.

EEC Backs Britain's Plan For Afghan-Pullout Talks months of this year, according to

LUXEMBOURG — The European Economic Community launched an Afghanistan peace initiative Tuesday, proposing an international conference that would negotiate a Soviet withdrawal from

Afghanistan. Foreign Minister Christoph A. van der Klaauw of the Nether-lands, president of the EEC Council of Ministers, said that the British ambassador in Moscow had formally proposed the conference to Soviet leaders on Tuesday. Mr. van der Klaauw declined to

give details of the plan, but he said that all EEC members had endorsed it at a meeting of foreign

"We think the whole question of Afghanistan remains very important, and we should try a solution,' Mr. van der Klaauw said after the meeting, "Whether we will be suc-cessful we will see, but we must

Conference sources said that the plan had been offered by Lord Carrington, the British foreign secretary, who will become chairman of the EEC council on July 1.

The conference would include

the five permanent members of the UN Security Council — Britain, France, the United States, China and the Soviet Union Afghanistan, Iran, Pakistan and India would also be invited.

Conference sources said that the plan would be discussed by EEC heads of government at a summit meeting in Luxembourg next week and that if the proposed partici-pants agreed, the peace conference could open in the fall. They said that Lord Carrington

made the proposal in an attempt to révive international public concern for the Soviet intervention, which began in December, 1979.

Lord Carrington told the foreign ers he was concerned that the Soviet intervention might become an accepted fact unless the international community revived attempts to bring about a political solution to the warfare.

Refugee Flow Rises

ISLAMABAD, Pakistan (AP) — More than 2 million Afghan refugees have registered with the Pakistani government, nearly one-third of them during the first five

Hua Is Said to Have Quit At Start of Party Meeting

(Continued from Page 1)

official figures released Tuesday.

Soviet Pilot Reported Seized

ISLAMABAD, Pakistan (AP)

- An Afghan insurgent group

claimed Tuesday to have captured

the first Soviet pilot alive since the

Maulvi Younis Khalis, leader of

tion, said here that the 30-year-old

pilot. Mikhail Semyonovich, had been overpowered on June 17, two

days after he and his co-pilot

bailed out of their MiG near

Chaprahar in eastern Afghanistan.

Soviet intervention.

meeting, as a result, have been mericulous. Each item of the agenda has been discussed down to the grass-roots level of the party, every major political interest has been consulted, compromises have been worked out to meet most of the remaining objections, and then the process has been repeated.

'Anti-Climactic'

"For something rather momentous, this is actually anti-climactic," a well-informed Chinese said Monday. "We have known for six months that Hua would go and that Mao would be criticized for his mistakes, and now that it is happening, nobody is surprised. This, of course, is what Deng

Despite the wide acceptance now of Mr. Hua's departure, a senior Chinese official urged Monday that reports of his resignation be treated with some caution. "The Central Committee is supreme, and it might after discussion decide not to go along with the arrangement the leadership has made," he said. "That has happened before. Nothing is settled until the meeting closes.

The replacement of Mr. Hua has heen controversial because he is a symbol of the leftists who rose to power during the Cultural Revolution. Party and government officials have feared that if Mr. Hua were forced out, they would be forced out also. He was also seen as the guardian of the Maoist legacy, and the officials felt that if he were to go, then China would no longer be following the course Mao laid down for it.

Mr. Hua, a relatively obscure provincial leader who curried Mao's favor by supporting his pol-icies ardently and building up his native place in Hunan province, came to Peking only 10 years ago but was named - rather than Mr. Deng — to succeed the late Premier Chou En-lai. Mr. Hua gave up the premiership last September to Zhao Ziyang, another Deng

Economic Problems

Mr. Hua has been strongly criticized over the past year for a leftist outlook and for resisting, even op-posing, Mr. Deng's policies, particularly the break with Maoist ideology. He was accused, according to a document from a party conference in December, of delaying the rehabilitation of Mr. Deng and others after the Cultural Revolution ended with Mao's death in 1976. Mr. Hua was also blamed for the economic problems that resulted from a crash development program launched in 1977.

Mr. Hua countered that much of the criticism was unfair, according to sources familiar with the party debate. Other members of the leadership also shared responsibility for the economic crisis, he replied, and Maoist ideology was still the party's guiding philoso-

Japanese Suicide Rate Falls, Except for Aged The Associated Press

TOKYO - The national police agency reported Tuesday that the number of Japanese who committed suicide decreased last year for the first time in 13 years but that an increasing number of elderly people are killing themselves.

The agency report said 21,048 persons killed themselves last year, down 455 from 1980, for a suicide rate of 1.8 per 1,000. Twenty-four percent of the suicides were among people aged 65 or older. The agency attributed these suicides to diseases and family and economic

Brezhnev Says U.S. Evades Arms Talks; Western Push Urged

By Robert Gillette Los Angeles Tones Service

MOSCOW - Leonid L Brezhnev, the Soviet leader, accused the United States on Tuesday of evading arms control talks and called on Western nations to press for prompt negotiations.

Mr. Brezhnev, speaking at the opening of a two-day session of the Supreme Soviet (parliament), blamed the United States for starting an "unprecedented" arms race that he said is raising the risk of nuclear conflict "Bellicose-minded militaristic

circles, headed by American imperialism, launched an arms race unprecedented in scale," he said. They evade negotiations on restricting rearmament, on eliminating seats of conflict and on the peaceful solutions of disputed inernational problems."

Reading an appeal to Western legislatures, which the Supreme Soviet endorsed minutes later, Mr. Brezhnev said the "risk of nuclear conflict increases with every day lost for negotiations. The solution of vital problems confronting each people and all peoples is being shelved. Time does not wait."

15-Minute Speech

The 74-year-old Soviet leader walked stiffly but unaided to the podium in the Great Kremlin Palace to read his 15-minute speech, the third occasion in two weeks in which he has accused the United States of avoiding arms talks. While prodding Washington to re-Hezbi-Islami (Islamic Party) facsume negotiations, he implicitly urged Western Europe to resist a 1979 NATO decision to deploy 572 Pershing-2 and Cruise missiles, beginning in 1983, as a counterbal-

ance to Soviet deployment of new SS-20 mobile missiles.

According to Western sources. Moscow has already fielded more than 160 of the missiles, each of which carries three nuclear war-heads and has a range of 2,000

miles (3,200 kilometers). "Launching pads are being pre-pared for hundreds more nuclear missiles in Western Europe," Mr. Brezhnev said. He made no reference to Soviet deployment of SS-20s, which Western experts have said is proceeding at the rate of

about one missile a week. The Reagan administration has agreed to open talks with the Russians later this year on limiting sians later this year on limiting missiles in Europe while simulta-neously going ahead with preparations for deployment.

The Supreme Soviet, which adopted Mr. Brezhnev's appeal just after the last speaker finished praising it, is a body of 1,500 delegates that meets twice a year for brief sessions to endorse party policies. Mr. Brezhnev did not mention Moscow's most urgent foreign policy problem, the movement for democratic reform in Poland

Soviet news media, however, maintained pressure on Warsaw on Tuesday by developing further the view that Poland occupies a position of special geopolitical importance for Soviet security.

Writing in Pravda, Vitaly Korionov, a political commentator, said events in Poland threatened the postwar division of Europe, the 'cornerstone" of Soviet security.

Anti-Communists, Mr. Ko-rionov said, dream of a "Polish breach" that would lead to rolling back Socialism in Poland, restoring capitalism and "breaking the foundations of the postwar struc-ture in Europe," thus in effect negating the outcome of World War II.

He accused the United States and other Western countries of interfering in Poland "under the pre-text of protecting" it from external threats — an apparent reference to Western warnings against Soviet intervention in Poland.

Malaysian-Albanian Ties

The Associated Press
KUALA LUMPUR — Malaysia and Albania have agreed to estab-lish diplomatic relations at ambassadorial level, Foreign Minister Ahmad Rithauddeen said Tuesday. He also said Malaysia has recognized a change in the name of the Libyan Embassy to the People's Bureau of the Socialist People's Libyan Arab Jamahiriya.

WORLD NEWS BRIEFS

Haig Ends Asian Tour and Heads for U.S. The Associated Press

Haig Jr. left Tuesday for the United States, ending a diplomatic sweep through Asia in which he visited China, Hong Kong, the Philippines and New Žealand

Mr. Haig ended his trip with a news conference at which he said an agreement on a Sinai peacekeeping force should be reached by July, and perhaps by the end of this month. The force is to act as a buffer between Israel and Egypt when Israel completes its withdrawal from the Sinai

He said the United States was eager to have Australia and New Zealand participate, and it "would give us no problem" if one of those countries were to command the force. However, Foreign Minister Anthony A. Street of Australia said his government wanted more information about the force before deciding whether to contribute troops, and Foreign Minister Brian E. Talboys of New Zealand said, "We have virtu-

Nearly 2.7 Million Now Jobless in Britain The Associated Pres

122 572 to 2,680,977 in June, double the total when Prime Minister Margaret Thatcher was elected, according to government figures pub-

from 2,558,405 in May and represents 11.1 percent of the work force. The figures were swelled by thousands of teen-agers leaving school. When Mrs. Thatcher's Conservative Party won the May, 1979, general

1.3 million unemployed. Her government blames the world recession and the necessary streamlining of uncompetitive British industry for the fur-

The Asse DUBLIN - The Court of Criminal Appeal has set July 9 for the execution of Peter Rodgers, 36, an Irish Republican Army activist who

However, legal sources said the death sentence would probably not be carried out because the next government is likely to commute it to a longprison term. Premier Charles J. Haughey's government set a precedent in capital-punishment cases last month by substituting 40-year terms for

ity since the elections of June 11, which left no party with a majority. Hanging was abolished in the republic 17 years ago except for the slaying of police officers, heads of state, diplomats and government leaders.

Pope's Illness Is Diagnosed as Pleurisy

The Associated Press ROME - Doctors performed more tests on Pope John Paul II on Tuesday but there was no new medical bulletin, three days after the pope: was readmitted to the Gemelli hospital with what has been diagnosed as oleurisy, an inflammation of the membrane surrounding the lung.

diagnosis of the pope's iliness as plentisy and saying he was getting

The pope has undergone X-rays, blood tests and a body scan to try to find the source of a persistent fever that sent him back to the hospital

tempt on his life in St. Peter's Square May 13.

7 Red Brigades Suspects Seized in Turin Area The Associated Press TURIN - Seven reputed members of the Red Brigades have been

arrested here and in nearby Biella over the last few days in the latest police crackdown on the leftist urban guerrilla group, authorities report-

targets of terrorist attacks. Those arrested were charged with membership in armed bands and illegal possession of arms. Police sources said the suspects had been trying to reorganize Red Brigades activities here. Three other alleged.

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language are turning to this outstanding audio cassette program The Foreign Serwice Institute's German Course is by far the most effective way to learn German al your convenience and at your own pace It consists of a series of tape structions listening and learning By the end and speaking entirely in Germani A nativ German speaker clearly recorded on th cassettes provides an excellent model to

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Bavarian Retreat All prices are inclusive of V A T and shipsons have been arrested so far and ping costs Your cassettes are shipped to you in handa search for evidence continues at a neo-Nazi château hideout in woods near here, authorities said

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château, A Bavarian police spokesman said police were digging in the grounds and combing the woods in (01) 937-1343 a search for weapons caches. 2 pm cm m m m m m m m m m m m

moderate course.

slain in Atlanta.

liminary hearing before County Williams was bound over to the county grand jury on charges of killing Nathaniel Cater, 27.

United Press International ATLANTA - Wayne B. Wil-

At the end of a three-hour pre-

Mr. Thompson ordered Mr. Wil-

liams, a 23-year-old free-lance photographer, held in the county jail without bond. Authorities said the grand jury was expected to consider the charges against Mr. Williams within 30 days.

(Continued from Page 1)

aside and that the party should

unite behind the government in the

face of opposition from conserva-

agreement was based on the

Abrupt About-Face

abrupt about-face in some of the

previous hard-line positions staked

out by the Communist Party on

"Some people will call this a ca-

domestic and international affairs.

pitulation," conceded Mr. Mar-chais. "I call it the continuation

3 Neo-Nazis Held

As Police Search

The Associated Press

Tuesday.

NUREMBERG - Three per-

The arrested persons were iden-

tified as Karl-Heinz Hoffmann, 43,

founder of a movement called the

"Defense Sport Group Hoff-mann," Odfried Hepp, 23, who in-

vestigators say received military

ka Birkmann, 34, a companion of

Mr. Hoffmann and owner of the

training in Lebanon, and Franzis-

The agreement marked an

government] at the same time."

Magistrate Albert Thompson, Mr.

nician said fibers and dog hairs found in Mr. Williams' home matched those found on the body

liams was ordered held without

Is Denied Bond

Atlanta Suspect

bond Tuesday for grand-jury action after a crime laboratory tech-

4 Communists Named to French Cabinet

and development of the policy of

The Communist leaders agreed

with the Socialists that the country

should respect its foreign alliances,

munists supported Moscow's con-

including its role in the North At-The government accord between the Socialists and Communists was lantic Treaty Organization, which is limited by the French decision hammered out Monday night and under De Gaulle to withdraw from Tuesday morning, and then apthe alliance's integrated military proved by both parties' central command. The two parties backed pegotia-According to Jean Poperen, one tions for a reduction of armaments in Europe, including theater nuclear weapons on both the U.S. and of the Socialist negotiators, the accord was "completely satisfactory" to his party. Mr. Poperen said the Soviet sides. Until now, the Com-

the Communist Party.

premise that it was not possible for tention that the new Soviet SS-20 missiles pointed at Western Euthe Communists "to have two attitudes - to be in and out [of the rope did not alter the nuclear balance, while the NATO decision to "Those who fail to observe this counter with the installation of rule will pay dearly, but after what Cruise and Pershing-2 missiles represented an escalation.
The Communists, who had prehas happened. I am convinced that no one will risk that," he added. viously backed the Soviet occupa-

> should be withdrawn and that all foreign intervention must cease

tion of Afghanistan, agreed with

the Socialists that Soviet troops

Support for Solidarity Concerning Poland, the two par-ties expressed the hope "that the country and its people themselves bring to a successful completion the process of economic, social and democratic renewal in which they are engaged." This statement seemed to support the Solidarity movement and reject a possible Soviet intervention — again, an apparent change in the French

Communists' strongly pro-Moscow line. On the Middle East, the accord stated that the two parties, taking into account the situation created by the Camp David agreements, reaffirm the right to existence and security of Israel and all states of the region at the same time as the right of the Palestinian people to a homeland." Like the Soviet Union, the French Communists had in the past denounced the Camp David process as a separate peace treaty

Mr. Mitterrand's proposals for

tax reforms and the nationaliza-

between Israel and Egypt offering no hope for a broader Middle East Within France, the Communists reed to back the pace and scope

tion of the remaining private banks and a number of large industrial groups. For years, the Communists had been advocating far more extensive state control over the economy and heavier taxes on the wealthy than the Socialists had proposed The Socialists also succeeded in wrenching promises from the

Communists that the accord would

extend to relations between the

parties at municipal and regional

levels, where some of the bitterest

confrontations between the two political groups have taken place in recent years. De Gaulle invited two Communists into government — giving them the air and health ministries - in August, 1944, after the liberation of France. And the Communists were present in almost every French Cabinet until May, 1947, when Socialist Prime Minister

Charles Ramadier expelled them for opposing the Marshall Plan for the economic recovery of Western Europe. Elsewhere in Western Europe, Communists have in recent years

held Cabinet posts in Portugal,

Burns Criticizes U.S. Attitude WASHINGTON (AP) - Arthur Burns, President Reagan's nominee as ambassador to West

Germany, Tuesday criticized the

Iceland and Finland.

our ways.

administration's stance on relations with Socialist France. "To the best of my knowledge, we are extending a hand of friendship a bit grudgingly." Mr. Burns told the Senate Foreign Relations Committee. "I hope we'll mend

"Perhaps I've already said too

much," he added at a confirmation

hearing on his ambassadorial nom-

ination "I wisely or unwisely have never been sympathetic to Socialism," Mr. Burns said earlier, "But at the same time, the French people have elected a Socialist president. They've now elected a Socialist

"It seems only good sense to me to hold out a hand of friendship to the French people, the French government, and to be of what assistance we can to that government."

not answer, however, was that his resistance to the Deng majority within the leadership threatened to split the party, and this was probay the decisive issue, according to informed Chinese sources. The compromise that was worked out during the spring for

The charge that Mr. Hua could

Mr. Hua's replacement reportedly submerges the personal aspects of this debate to focus on the broader question of renewing the party leadership and establishing the precedent that those who make mistakes should take responsibility for them and resign.

peninsula next April. ally the same position."

LONDON - The number of unemployed people in Britain rose by The new total, the highest number out of work for half a century, is up

ther loss of jobs.

was convicted four months ago of killing a detective in the republic last.

three men who were to be hanged for the murder of another police Mr. Haughey has been trying to patch together a parliamentary major-

"The state of health of the pope is comforting," the Vatican newspaper L'Osservatore Romano said in Tuesday afternoon's edition. The newspaper then printed Monday's brief Vatican press release giving the

Saturday. Doctors said the fever has slowed his recovery from the at-

Policemen said they also had discovered a hideout in central Turin where they seized arms and documents listing a number of possible

Red Brigades members have been identified and are being sought, police

election promising to fight inflation and curb union power, there were Dublin Court Sets Hanging for IRA Convict



1979. The former president's tale of being attacked by a photo. The Associated Press obtained a copy of it this week.

RETURN OF BANZAI BUNNY — When last seen, the huge, hissing bunny — during Easter vacation, yet — caused "killer rabbit" of Plains, Ga., was swimming away from an a splash when aides leaked it. A White House photographer oar wielded by Jimmy Carter on a pond near Plains in April, swore he had proof, but Carter aides would not release the

Senate Panel Approves 3 Parts of Tax Bill

By Edward Cowan New York Times Service WASHINGTON - Without a senting vote, the Senate Finance mmittee has approved three ajor provisions of a tax-relief ll, including a cut to 50 percent om 70 percent in the maximum crate that individuals pay on in-

Driving hard toward the draftof a complete tax bill this ek, ahead of the House Ways 1 Means Committee, the senas also voted for an easing of inritance taxes and for the creon of a tax-exempt savings certi-ate that banks and thrift instituns would be allowed to sell for

year. The Republican chairman of the nmittee, Sen. Robert J. Dole of nsas, called the inheritance-tax vision a step toward complete eal, perhaps within two years. The committee's actions Mon-/ followed its approval last week the heart of the administration's proposal: income tax cuts for lividuals of 5 percent on Oct 1, 41, 10 percent on July 1, 1982,

Mahassas By David K. Shipler

-: nuclear weapons.

S wis according to an informed

Washington, a State Depart-it official said that information the Iraqi nuclear program had

New York Times Service

TRUSALEM - Prime Minister

e told an Israeli parliamentary

mittee that the United States

provided him with a document

ressing American concern that

y was planning to use its nch-built reactor to manufac-

he document, based on U.S.

lligence reports, was given to

Begin in January by the U.S. assador to Israel, Samuel W.

a exchanged at various times

.1 Israel and other Middle East-

countries, but the official

ald not comment on the report

ocument expressin

By Alan Philps

HRAN — The dismissal of

dent Abolharsan Bani-Sadr

the spotlight on the clergy-

whom many Iranians believe

.... the most powerful politician

the country: Ayatollah ammed Beheshti, head of the

ame Court and leader of the

uc Republican Party, which

nates the government, courts

ratollah Beheshti, 52, a severe,

A-voiced figure who wears the

rophet Mohammed, once told

nterviewer: "You know, I'm really as powerful as people

r and prestige that led to the Monday of Mr. Bani-Sadr 17 hs after he won a huge victo-

the country's first presiden-

hen supporters of the presi-

took to the streets of Tehran

aturday for a demonstration

hich at least 25 people died,

. . first and loudest chant was,

: 'atollah Beheshti's double role

arty leader and chief justice

neen criticized by opponents

e fundamentalist Islamic Re-

cans as compromising the in-udence of the courts. But the

llah says there is nothing in

s revolutionary constitution.

n he had a big part in creat-o forbid his holding both po-

th to Beheshti."

 $H_{1,B,\mathbb{Z}}(n_{\mathbb{Z}})$ for \mathbb{R}^{t} to his countrymen he is the helpful the first head of the fir

lections.

turban of a descendant of

nachem Begin is reported to

and 10 percent again on July 1, need for a House-Senate confer-

Democrats on the House Ways and Means Committee have rejected the 1983 cut, and last week they adopted business tax-relief provisions markedly different from those proposed by the White House, which are likely to be adopted by the Finance Commit-

Sen. Dole has said that he hopes to finish drafting a tax bill by Thursday. The Senate Republican leader, Howard H. Baker Jr. of Tennessee, has hinted that the Senare might defy custom and vote on the Finance Committee bill before the House votes on its own tax

Investment Income Tax

Under prodding by the White House, Sen. Dole has been driving for early drafting as part of a larger strategy to enact a tax bill by Aug. 1. Although that goal seems ambitious, congressional aides said it could be accomplished if the House and Senate were to pass identical measures, avoiding the

egin Reportedly Asserts U.S. Gave Him

ocument on Concern Over Iraq's Plans

ln congressional testimony last week, administration officials said

that while there was reason for

concern over the Iraqi nuclear pro-

gram, there was no conclusive evi-

dence that Baghdad was seeking to

build nuclear weapons.
Since the Israelis bombed the

Such a strategy would turn on the ability of the White House to muster enough Democratic votes in the House to defeat on the floor the bill being drafted by the Democratic majority on the Ways and Means Committee and to substitute an administration bill.

The cut in the maximum rate on investment income to 50 percent from 70 percent would take effect Jan. 1, 1982. The Senate Finance Committee also adopted a provision that would make the reduction effective June 10, 1981, for long-term capital gains. A Treasury official said the 50-percent rate would thus apply to long-term gains realized after June 9 for anyone whose 1981 tax bracket would

exceed 50 percent. Congress seems unlikely to change the 60-percent exclusion of long-term gains from any tax. With the taxable portion remaining at 40 percent, dropping the maximum income tax rate to 50 percent from 70 percent would re-duce the maximum levy on capital

declined comment.

U.S. Concern Detailed

road to becoming a nuclear power.

from the impending Israeli attack

The radio also said that Mr. Be-

gin had told the committee that Is-

raeli intelligence activities, pre-

on the Iraqi reactor.

gains to 20 percent (50 percent of 40 percent) from 28 percent (70 percent of 40 percent).

Sen. Daniel P. Moynihan, a New York Democrat, asked the Finance Committee to adopt a. parallel reduction in the capitalgains tax rate for business to maintain what he said has been a historical parity with the levy for individuals. The administration op-posed that, however, and the matter was deferred.

The inheritance tax changes would remove all tax on the inheritance of a surviving spouse during his or her lifetime. In addition, the present exemption of estates of \$175,000 or less would rise to \$225,000 in 1982, \$275,000 in 1983, \$350,000 in 1984, \$450,000 in 1985 and \$600,000 in 1986 and thereafter.

The only serious disagreement Monday was on a proposal offered by Sen. John C. Danforth, a Missouri Republican, and opposed by the administration. His proposal would let banks and thrift institutions offer savers a tax-exempt. one-year savings certificate that pays 70 percent of the return on Treasury bills, Individuals would be allowed to exclude up to \$1,000 year of such income from their taxable income, and couples could exclude up to \$2,000. Estates and trusts would be ineligible.



Zarah Leander, Swedish Singer, Actress, Is Dead

The Associated Press STOCKHOLM - Zarah Leander, 74, a Swedish singer and ac-tress, died Tuesday. She had a cerebral hemorrhage last month. With her sensuous voice and rich red hair, Miss Leander was a stage and screen star in Germany and Austria in the 1930s and 1940s, and a favorite of Josef Goebbels, the Nazi propaganda minister. She fell from his favor in 1942 and returned to Sweden.

WASHINGTON (IHT) - Lawrence Clement Dame, 82, a journalist, author, art critic and a staff reporter and feature writer with the Paris edition of the New York Herald Tribune from 1929 to 1931 and again in 1936, died May 22 in West Palm Beach, Fla. His books included "Yucatan," describing his explorations in Mexico in 1940 and 1941. He was a former art critic for the Art Digest, London, and the Boston Herald Traveler.

Robert S. Rozman

WASHINGTON (NYT) Robert S. Rozman, 49, the chief of the drug metabolism section of the Walter Reed Army Institute and an authority on malaria, died last Thursday of cancer. Dr. Rozman played a principal role in developing melfloquine, a drug to treat types of malaria resistant to many other drugs. He also helped develop a drug that protects normal tissues, but not certain solid tumors, from effects of radiation therapy.

Isadore Blumenfeld

dore Blumenfeld, 80, who was known as Kid Cann when he headed a bootleg liquor syndicate during Prohibition, died Sunday. Before he was sent to prison in 1961 for trying to bribe a juror, Mr. Blu-menfeld and his confederates known variously as "The Combi-nation" and "The Syndicate" built a long history of crime in Minnesota. He was released after 31/2 years in prison.

U.S. Pair in Zambia **Get Expulsion Order As Alleged CIA Spies**

LUSAKA, Zambia — Two senior U.S. diplomats are being ex- mation on Mr. Kaunda's special pelled from Zambia on charges of spying for the CIA, and four other had on him. Americans no longer in the country have been barred from returning, a spokesman for the Foreign

Michael F. O'Brien, head of the Embassy's information fourth was a busines branch, said in a telephone inter-They were identified as Frederick B. Lundahl. one of four U.S. view early Tuesday that he and John D. Finney, the embassy's first secretary, had been ordered Monday night to leave the country within 48 hours.

The Foreign Ministry spokes-man implied that the CIA was plotting to overthrow President Kenneth Kaunda. He said the agency had examined "alternative leadership" to Mr. Kaunda and "looked to" an unidentified senior army officer and Frederick Chiluba, chairman of the Zambian Congress of Trade Unions, as possible replacements.

Ministry said.

Meanwhile, reliable sources in Lusaka said Tuesday that Zambian security forces had foiled a second attempt to overthrow the president. The sources said Mr. Kaunda and other officials were to be killed by a South African-backed commando squad. They said the coup attempt was scheduled for last Wednesday.

But the sources said the plot was not connected with the deportation of the Americans, Mr. Kaunda claimed last October that the army had foiled a plot to over-

The ministry spokesman also said that a Foreign Ministry official, Webster Kayi Lumbwe, had been arrested on suspicion of spy-ing for the CIA. He said Mr. Lumbwe told investigators the U.S. agency was interested in information on arms Zambia got from the Soviet Union, the political leanings of senior government officials, and a dispute between the Christian community and Mr. Kaunda's United National Independence Party over what the churches alleged was introduction of scientific Socialism in schools." Mr. Lumbwe added, according

the Americans also sought inforadvisers and what influence they

The four other Americans were declared "prohibited immigrants." The Foreign Ministry said three were CIA officers formerly stationed in Zambia. Sources said the

diplomats expelled from Mozambique in March: Norman Smith. Robert R. Simpson and William B. Lowethier. Mr. Lowethier worked in Lusaka until April for a firm called International Business Pro-

motions.

The Foreign Ministry spokes-man said Mr. Lumbwe had been recruited for the CIA by Mr. Lun-dahl in 1978 and began work for the agency the following year.

The spokesman claimed Mr. Lundahl had been the desk officer in charge of Zambia at CIA headquarters in Virginia, then was CIA station chief in Mozambique. He said Mr. Smith and Mr. Simpson were also CIA officers.

Mozambique expelled Mr. Lun-dahl, three other members of the U.S. Embassy staff there and their wives on March 6 and charged that they were providing information to South Africa on black South African rebels operating out of Mo-

In Washington, the State Department said it had heard that Mr. O'Brien and Mr. Finney were being expelled and was trying to get more information. A spokes-man, Joseph Reap, said the United States had nine diplomats in Lusa-

The Monday edition of The Times of Zambia, the official organ of Mr. Kaunda's party, reported that a number of army and air force officers had been detained following the theft of a truckload of weapons from a barracks across the street from the president's resi-

This report was subsequently denied by Defense Minister Grey Zulu, who had been quoted in the newspaper as confirming it.

West Berlin police carrying a squatter from an occupied house in the district of Zehlendorf on Tuesday. The mansion had been occupied by squatters for about two months.

173 Held After Squatter Riots In Frankfurt and West Berlin The Associated Press

BERLIN - Police arrested at least 173 persons after a night of street battles in West Berlin and Frankfurt, authorities said Tuesday. The trouble followed the eviction of squatters from occupied houses in both cities.

Another 35 young persons were evicted, despite "passive resistance." from two occupied houses in Erlangen, near Nuremberg. late Monday, police there said.

A Frankfurt police spokesman said that about 250 youths had taken to the streets Monday night to protest the eviction of squatters from a neighborhood apartment building. The youths broke windows of 30 businesses and two banks and damaged several parked cars, he said.

One man was arrested after firing a pistol tracer bullet during the ensuing fight with police, the spokesman said, adding that two women had been arrested for vandalism. There were no reports of

An estimated 12,000 squatters who are protesting the shortage of low-cost housing occupy more than 140 buildings in West Berlin. The city was relatively peaceful in recent months as police stopped most efforts to evict the youths.

Crackdown in South Africa Is Harshest of Botha Era

By Joseph Lelyveld New York Times Service

JOHANNESBURG - In what amounts to the most severe crack-down by South African security police since Prime Minister Pieter . Botha took office nearly three years ago, about 30 black trade-union leaders and student activists have been arrested in the past three weeks under security laws permitting detention without trial.

The pattern of the arrests suggested that the security police were looking for evidence that recent black protests have been coordinated. More specifically, the police were thought to be searching for links between legal black organizations and the African National Congress, the oldest black political movement in South Africa, which has been outlawed for 21 years.

arrests, however, involved a smaller, allegedly extremist underground movement called the South African Youth Revolutionary Council, made up of black youths who fled South Africa after student uprisings in 1976 and 1977 in Soweto, the black township near Johannesburg.

PLO Ties Rumored

apparently been rejected by the African National Congress.

ed as they attempted to infiltrate back into Soweto. Among them was Khotso Seatloho, who was president of the Soweto student representative council when he fled into exile in 1977. Mr.

U.K. Police Call Killing of Black A Racial Murder

The Associated Press
LONDON — Police say the stabbing to death of a Nigerian-born black by three white youths

The victim was identified Monday as Fenton Isiah Ogbogo, 25. He was killed in a fish shop in the Peckham area about an hour after a rampage by 500 mainly black youngsters who attacked police, smashed shop windows and looted several shops. Police made 30 ar-

been other racial attacks by young whites, including the stabbing of a young black who was hospitalized in serious condition last Thursday.

After a 50-year-old Pakistani was stabbed to death in London three weeks ago, friends said he had been threatened with death by the extreme-right National Front, Two Asians have been killed in

Seatloho is reported to be the

Thursday.

Two days earlier, at a meeting in a Soweto church in memory of stu-dents who were killed by police fire in the clashes of 1976, mimeographed broadsides under a letterhead of the South African Youth Revolutionary Council were dis-

been arrested in the township last name of the African National Con-

"We cannot allow ourselves to be reduced to mere commemora-tors of the death of our kith and kin," the council's broadside declared, calling on Soweto's population of more than 1.1 million to "organize and act against the ene-

OAU Leaders Arrive for Nairobi Summit

NAIROBI — Heads of state from 50 countries with a total population of almost 500 million have military ties with South Africa and might drop efforts to end the conflict in South-West Africa (Namibegun arriving in Nairobi for the bia). a former German colony nouncement last week of a Libyan annual summit of the Organization ruled by South Africa. of African Unity, due to oper

Despite the political and sometimes military conflicts that have divided the OAU, a meeting of foreign ministers preparing for the summit underlined that the organization is virtually united on at least two points - hostility toward the white-minority government in South Africa and suspicion of the United States.

Lengthy ministerial discussions left no doubt that Africans feel the Reagan administration is intent on achieving close links with South Africa at the expense of its black

neighbors.
One chief of state who will be absent from the summit is President Kenneth Kaunda of Zambia, whose government will be repre-sented by Prime Minister Nalumiпо Mundia.

A government spokesman in Lusaka said Mr. Kaunda "is very busy in the country and feels he should be here." The spokesman said the presi-

dent's decision to stay home was not connected with the expulsion from Zambia, announced Monday night, of two U.S. diplomats for what the government called "activities inimical to the security of the

During the foreign ministers' meeting in Nairobi, the United States was strongly criticized not only for alleged encouragement of South African intransigence but

also for its support of Israel.

African anger with Washington
was sharpened by an announcement there last week that the U.S.

Arrested in Uganda

Parliament have been arrested, one while escorting a truck full of arms and ammunition, Internal Affairs Minister John Luluwiza-Kirunda

soldier was killed north of Kampala, and that Yesifi Sabiti had been detained after the truck he was escorting west of Kampala was found to be loaded with machine guns, rocket-propelled grenades,

government was considering closer Western Sahara between Morocco

Guerrillas of the South-West Africa People's Organization (SWAPO) are fighting the South African Army in the territory.

Sam Nujoma, the SWAPO leader said at a Nairobi news conference that "in the absence of a settlement, South Africa will be defeated by a protracted armed

Among issues expected to arise at the summit is the war in the diplomatic initiative to end the

There is increasing concern among OAU leaders over economic problems as well. In a speech to the foreign ministers. President Daniel Arap Moi of Kenya touched on such problems as food shortages, lack of foreign ex-change, vast numbers of refugees requiring assistance, and lack of success in exploiting Africa's re-

mitted that social discontent was

The Istiqlal party, which be-longs to the ruling coalition, said

the people's purchasing power was

One can only regret the ab-sence of dialogue between the gov-ernment and the trade unions,

which could have permitted a di-

rect and frank discussion," the party said through its newspaper:

The majority party in the coali-tion, the Rassemblement National

des Indépendants, appealed for

"self-criticism and reflection on

our behavior in all fields, to cor-

rect what must be corrected."

partly justified.

L'Opinion.

Opposition Assails Regime Over Casablanca Violence

RABAT, Morocco — The Socialist opposition, accusing the gov-ernment of using "the most brutal violence," called Tuesday for a parliamentary inquiry into the weekend clashes in Casablanca in which scores of people were killed.

The government of Premier Maati Bouabid said Monday night that 66 persons had died and 110 had been injured in the violence in the port city during a general strike. The opposition Union Soci-aliste des Forces Populaires (USFP) said more than 100 had

In a statement Tuesday, the USFP said Saturday's strike. called across Morocco, had been a *grandiose demonstration of refus-I to accept the increases in basic food prices decided and maintained by the government."

been killed.

The authorities tried to break the strike by means of "intimidation and ... massive and general arrests," the Socialist statement said. "Faced by the success of the strike, the government did not hes itate to resort to the most brutal violence, particularly in Casablan-

> Socialist Demands The USFP demanded the can-

cellation of the price increases, the release of all detainees and the lifting of "illegal measures" against trade unions, political parties and

It called for a parliamentary commission to investigate the events of Saturday and Sunday in Casablanca.

While condemning the violence pro-government parties also ad-





Another Hat

e removal of the president Ayatollah Beheshti another ·) wear: He is on the presidenouncil that has taken over Mr. Sadr's duties and is responsior holding new elections withdays.

e other members are the is (parliament) speaker. emi Rafsanjani — who, like ollah Beheshu, is a founding ber of the Islamic Republican

— and Premier Mohammed lajai, who is not a member of arty but who supports it and

s backing. ities of the party have suggestat the council will not be able old the elections within the lated period because of the nuing war with Iraq and civil it in some parts of the Iran; would allow the council to stay in power longer. Ayatollah Beheshti has pledged, however, that the council will arrange the

the French village of Neauphle-le-

too outspoken.

After Mr. Bani-Sadr won about 75 percent of the vote in the January, 1980, presidential elections, commentators wrote off Ayatollah Beheshti's party. But in the Majlis elections that followed, the party declared that a majority of

enough to give him power. He was forced to accept Mr. Rajai as pre-

tion that the Islamic Republican Party had brought Mr. Bani-Sadr down by blocking his every move. "There is no problem between Mr. Bani-Sadr and the party," he said.
"The problem is really between him and ... the people of the line which has been called the imam's [Ayatollah Khomeini's] line."

reactor June 7, Washington has questioned Mr. Begin's assessment of the Iraqi threat. The prime minister insisted that the reactor was to go into operation as early as July and that Iraq was planning to over the Iraqi installation, raising build several bombs of the type used against Hiroshima in World the possibility that it could be used

While President Reagan expressed understanding of Israel's nervousness, his administration

pable of or intent

delayed the scheduled delivery of four F-16 jet fighter-hombers. Officials in the State Department and the Pentagon contended that they had not been able to conclude with certainty that Iraq was indeed ca-

Mr. Lewis had given Mr. Beanian Spotlight Moves

> elections within the required 50 days.
>
> Before the overthrow of the shah in January, 1979. Ayatollah Beheshti spent five years as spiritual adviser to the Iranian community in Hamburg. He emerged as the right-hand man of Ayatollah Ruhollah Khomeini while the rev-

Chateau and after his triumphant return to Tehran. At his weekly press conferences in the Justice Ministry, where he has his offices, Ayatollah Beheshti

Scare Arche Mu fields questions with ease in English and German. Each word is carefully chosen, and he never says more than he needs to - in con-

deputies were its supporters. against him, the president found that winning the election was not mier, and he soon became involved in a battle over interpretation of the Islamic constitution. Mr. Bani-Sadr apparently saw himself as a

In his last comments on the last week, Ayatollah Beheshti said: million people to play the role of president according to our consti-

o Party Leader Beheshti

olutionary leader was in exile in

trast to Mr. Bani-Sadr, who regu-larly issued lengthy statements that his supporters warned were

Majlis Majority

With the Majlis firmly lined up powerful, French-style president, while the party viewed his role as purely ceremonial.

president, at a news conference "Mr. Bani-Sadr was elected by 10 tution, not according to the constitution of France, the U.S. or Ger-He denied a reporter's sugges-

Says Arabs Must Obtain A-Bomb The Associated Press

NICOSIA - President Saddam Hussein of Iraq called on "all peace-loving nations of the world Tuesday to help Arabs acquire the atomic bomb to balance Israel's nuclear capability, the official Ira-

qi News Agency said. Mr. Hussein, in his first public reaction to the Israeli destruction June 7 of the Iraqi nuclear reactor near Baghdad, said nuclear weapons for the Arabs were essential for world peace and security, "ir-respective of Iraq's current and fu-ture capabilities," the agency re-

Iraq has insisted that the French-supplied reactor, which was near completion before the Israeli bombing, was strictly for peaceful purposes. Israel, which does not allow inspection of its two nuclear reactors and has not signed the Nuclear Non-Proliferation Treaty, said its action was in self-defense because the Iraqis intended to make bombs for use against Israel.

Mr. Hussein said that "no power can stop Iraq from acquiring tech-nological and scientific know-how to serve its national objectives," the news agency reported. "Any country with a positive international responsibility toward peace and humanity must tell the Arabs, take arms with which you can face the Zionist atomic threat," he was quoted as saying.

This, he said, "is the same logic

employed by the United States toward the Soviet Union, and the

Soviet Union toward the United

Zarab Leander

sumably reconnaissance flights. had not been inhibited by the Syrian missiles. An Israeli air strike against the missiles was planned for April 30, Mr. Begin later revealed, but was called off because of bad weather.

It was then suspended indefinitely at the request of the Reagan ad-ministration, which sent Philip C. Habib to the Middle East as a spe-

where she was popular in the 1950s.

Lawrence Clement Dame

MINNEAPOLIS (AP) — Isa-

chairman of the South African Youth Revolutionary Council. The authorities have so far

refused to divulge the names of the seven others who were arrested. The Sowetan, a daily newspaper with a predominantly black staff and readership, reported this week that at least three of them had tributed, as were leaflets in the

Wednesday.

The most recent and dramatic

The council, which surfaced first in Nigeria, has been rumored in South African black political circles to have been receiving funds from the Palestine Liberation Organization. Although its activities have been shadowy, an impression had grown that it was ready to consider terrorist factics that have

On Sunday, the security police acknowledged that they had detained eight of the exiled students, who were said to have been arrest-

in London Saturday night was a racial killing, "It would be foolish to believe that this callous, brutal murder was anything other than a racial attack," Detective Chief Superintendent Peter Bradbury said Monday.

Mr. Bradbury said there have

Coventry in recent weeks.

2 Opposition Figures

KAMPALA, Uganda — Two op-position members of Uganda's

He told Parliament that Elijah Kitaka-Gawera had been arrested early Monday after an off-duty hand grenades and bullets.

DELIVERED

ANYWHERE IN THE

FAST

WORLD

ANY U.S. BOOK IN PRINT

Wednesday, June 24, 1981 *

Innocents Abroad

In one extraordinary half-hour last week. President Reagan pronounced the tensions in Poland to be "the first beginning cracks, the beginning of the end" of Communism everywhere; called his decision to sell arms to Communist China a "normal part" of improving relations: and then said he saw no connection between the two situations. The president thus revealed a powerful failure of imagination - and a critical flaw in his approach to the world.

The huge connection between Poland and China is obviously the Soviet Union. And the connection between the Polish and Chinese rebellions against the Soviet system is their dependence on Western help. An administration blind to these connections and working only at the periphery of the Soviet empire cannot design a safe relationship with Moscow. Without such a design, there's no foreign policy worthy of the name.

Imagine Canada elevating Marxists to high office and seeking Soviet aid against U.S. pressure. Picture the entire continent of South America aligning itself commercially and strategically with the Soviet Union. And then imagine Leonid Brezhnev saying he saw no connection between these events — that one heralds the failure of capitalism, the other merely normal diplomatic evolution.

Would Americans believe such professions of innocence? And if they did, would they not conclude that thermonuclear power had passed to an incredibly myopic leader blind to the U.S. view of the world and dangerously incapable of recognizing vital interests of the United States?

President Reagan bears no obligation to relieve the Soviet anguish over the Chinese and Polish challenges. These are historic shifts that may indeed alter the world's power balance in favor of the United States. But for that very reason, he should be routinely aware of how the world looks to the Kremlin

and how the deployment of U.S. power affects Soviet perceptions.

If the Reagan team could stand in Soviet shoes, it would never dare exacerbate the Kremlin's already dangerous alarm about Poland. If it understood the Soviet phobia about China becoming "the 16th member of NATO," it would never think this had nothing to do with Soviet conduct elsewhere.

Containing Soviet power is a plausible U.S. strategy. Crowding that power from east and west is now clearly possible. Crowing about Communist failure may be a plausible tactic. But the wisdom of U.S. policy at every turn depends on whether it reckons properly with Soviet reactions and leads to a plausible Soviet-U.S. relationship.

Does Reagan really mean to help drive the Red Army into Poland? Does he mean to boost the Soviet faction that would revive Moscow's alliance with Peking? Above all, what does he offer the Kremlin to conduct itself in ways that promote accommodation?

The Russians face a fateful change of leadership and at least a decade of severe economic stress. For the United States to threaten to spend them into even deeper crisis with an arms race is one side of a policy. But the other side has to name the price and promise of a more humane competition. What mutual restraints on conduct would Mr. Reagan expect in return for strong commercial ties? At what point in his military buildup does he propose to offer a serious alternative, genuine arms control and even cost-saving reduc-

In justifying the rash of arms sales to poor nations the other day, a U.S. official remarked, "If you're going to have any relationship with Guatemala, you have to show them it's worth something." If you're going to have a relationship with the Soviet Union, what's it to be? what's it worth?

THE NEW YORK TIMES.

A Defective White Paper

So the administration's "white paper" on foreign Communist backing of the El Salvador insurgency is defective. The evidence of Soviet Cuban and other support that was proclaimed to be "definitive" in February. turns out, upon closer inspection by The Washington Post and The Wall Street Jourhal, to be arguable and, in some cases, plain wrong. We had found the documentation substantial in the first go-around. Upon reflection, we're not surprised to see questions being raised 100 days later. Politics is not arithmetic: Everything is arguable, especially in El Salvador-type situations, and it seems almost an iron-clad condition of U.S. political life that these foreign policy white papers end up being in some degree discredited in a few months' time. But the fact is that the nature of the foreign role in El Salvador never could be established by documents. That's not how these things work. The administration overreached in resting its case on a hastily prepared brief that others could dissect at leisure.

Some of the administration's critics, making a point The Post and Journal news articles on the white paper disavowed, suggest that official policy has been undermined. They see deceptive means being used to sell a flawed policy. But we don't see deception -

simply error, and not necessarily grievous error: to the new questioning of its white paper the State Department has some interesting and vigorous rejoinders. Concern over a foreign role in El Salvador was not, after all, a Reagan invention. The Carter administration had become exercised enough about it to restart military aid, and even Robert White, the Carter ambassador fired for challenging Reagan policy, has accepted that there is a certain foreign role.

As for the policy, from the start it has been essential to respond to the foreign component, but not to overrespond. The risk in the white paper was never so much that it would take in the public as that it would take in the administration — reinforce its inclination to treat El Salvador principally as an arena in which to do military battle against internanonal Communism, neglecting the struggle's domestic roots. The white paper was not especially important, we suspect, in bringing Congress and foreign friends to their current levels of support for the Reagan approach. The administration was going to get most of that support anyway. It was probably more important in shifting the balance inside the administration toward the lopsided military emphasis that still characterizes U.S. policy.

THE WASHINGTON POST. The Coal-Burning Car

An automobile that runs on coal? It exists, and it opens interesting possibilities for further reductions in the U.S. need for foreign oil. General Motors has developed experimental cars that burn finely powdered coal in turbine engines. But a solid fuel raises a long string of difficulties - not least of them the pollution inherent in coal. It's a lot simpler to use the coal in liquid form, as methanol, in engines very similar to the present gasoline engines.

Ford and General Motors have both done a lot of work on methanol engines. Ford in particular has carried out repeated demonstrations - in one case driving methanolpowered cars across the country - to persuade people that the idea can actually work. In Brazil, both companies are making cars that run on a closely related fuel, ethanol. The difference between the two alcohols is that ethanol must be made from plant matter while methanol, manufactured from coal, is not a competitor with the food supply.

Methanol is superior, in several respects, to gasoline. Its high octane permits high compression engines and high operating efficiency. It burns clean. It's safer to handle. Racing cars have used it for years. Gasoline became the standard highway fuel simply because, until the 1970s, crude oil was extremely cheap. It's time to reconsider the assumption that cars have to run on gasoline, and only

gasoline. But public policy will strongly influence any transition to another fuel. Methanol now is probably competitive in price with gasoline

- if it can be manufactured efficiently. That requires large plants, and, at current interest rates, the nature of the financing will be crucial. The Reagan administration has been ambivalent about the new U.S. Synthetic Fuels Corporation. But this is precisely the kind of undertaking for which the corporation was designed.

A new fuel always runs into the chickenand-egg question, as the engineers gloomily call it. The oil and chemical companies won't put methanol into service stations until there are cars on the road that use it, and the automobile companies can't sell methanol cars until the fuel is widely available. Diesel passenger cars are on the market only because the heavy trucks created a diesel fuel network, and unleaded fuel is at the pump only because federal law required it.

To say that the market will take care of the transition to a new fuel is merely fatuous. Like unleaded gasoline, the next fuel whether its methanol or another one - will probably require a push from the government. With its enormous reserves of coal and its inadequate oil, this country cannot ignore the opportunity to begin shifting U.S. automobiles onto coal-based fuel. It can't be done quickly. But, after two worldwide oil crises and the gasoline lines that they brought, it's hard to think that many Americans would favor a national policy of standing by, hands in pockets, to wait for a third oil crisis, and a

THE WASHINGTON POST.

In the International Edition

Seventy-Five Years Ago June 24, 1906

NEW YORK - An editorial in the Herald reads: "The time has come to extirpate these venomous reptile anarchists. Treating them gingerly for fear of making them martyrs; giving them refuge when they migrate from their own lands, and permitting them to lecture and spread their diabolical gospel simply encourages them to commit new crimes. They are the foes of civilization in general and of the working masses in particular, for by their atrocities they they incite reactionary movements against the democratic tendencies of the times. They should be ferreted out, and by international cooperation stamped out of existence."

Fifty Years Ago June 24, 1931

BERLIN - Chancellor Bruning announced today that the German government is willing to enter negotiations with France with a view to "comprehensive and practical cooperation" between the two countries. He said he was convinced that no fruitful cooperation between the European peoples, no really stable peace in Europe and no normal economic interchange with the United States is possible unless Germany and France clear their minds of past antagonisms and turn their eyes more to economic and political problems. He added, "A most dangerous illusion is the belief that a reparation holiday would wipe off all Germany's financial difficulties."



Of Time and the Alliance...

By Stephen Klaidman

DARIS - A fundamental difficulty in the Western alliance is that the security threat and common values that unite Europe and the United States are relatively vague and remote and the economic and political differences that divide them are concrete and immediate.

The United States, which lives farthest from the conventional Soviet threat, and under the Reagan administration tends to be the most strident about the virtues of democracy, has decided that the first priority must be military

Europeans, who live in the maw of the bear, generally prefer to emphasize current interalli-ance problems such as high U.S. interest rates, which exacerbate their nagging but not neces-sarily intractable economic problems, and

Neutralize the Danger

It isn't that the European allies don't recognize the predatory nature of the Soviet beast. They just disagree with the United States about how to neutralize the danger. And having lived through total war on their territory, they are more determined to avoid it happening again, this time with the unspeakable consequences of nuclear holocaust.

The practical problem is to figure out how

to keep the alliance from tearing apart even though there is underlying agreement about the nature of the threat it was created to counter and which all of its members still recognize as a legitimate cause for its existence.

The current disarray results from a series of dramatic changes in the world since NATO was founded more than 30 years ago. Here are just a few of the basics that have created an entirely different strategic equation:

In 1950, there was one superpower, the
United States. Now there are two.
When NATO was founded, Europe was

emerging from the ashes. The Common Market is now an economic power in the same league as the United States. West Germany, a defeated ruin of a country after World War II, is now the largest Eu-

ropean economic and military power in an alliance founded by its former enemies.

• Japan, also badly defeated in the war, is now the world's second economic power and Harvard sociologist Ezra Vogel has written of 'Japan as No. 1.

• China, which was taken over by its current Communist rulers just before NATO was formed, is now a functional member of the alliance as a result of its bitter split with the • There has been a revolution by the oil-

producing countries, which have wrested control of the price of their product from the Western-owned companies that traditionally dominated the markets and the means of pro-The New Reality

No doubt there have been other important changes in the last 30 years. But these should be adequate to illustrate that there is a new reality to which the alliance has not yet fully

When there was only one superpower, which means only one country with the power to de-stroy its enemy with a brief but devastating nuclear strike, it was natural for Western Eu-ropeans to welcome the protection of the United States, its World War II ally with which it shared common values, a common heritage and which was rebuilding it.

But now that two countries can destroy the world, a new question has arisen. Can Europe afford to take sides? The answer for most gov-ernments has been decisively yes. and decisions such as agreeing to base theater nuclear missiles have followed. In turn, there have been political troubles resulting from the neutralist and anti-nuclear campaigns of Protes-tant churches, ecologists, left-wing social democrats and others.

Meanwhile, as the Soviet Union was transforming itself into a superpower, Western Europe, with hard work, ingenuity and Marshall Plan aid, was becoming an economic co-lossus. Japan, with less U.S. aid and even more hard work and ingenuity, was also on its way to becoming an economic giant.

With the spectacular growth of the European and Japanese economies, international trade took on an entirely new character. The United States can no longer dominate its trading partners, although because its economy is still the world's largest, it is a major influence

After the Oil Shocks

Then came the oil shocks, which caused con-siderable transatlantic strain, in part because the Europeans were far more energy dependent than the Americans, and the Americans were far more profligate.

All of those factors have created a military and economic interdependence that did not ex-

The Europeans seem to have a clearer understanding of the existing economic inter-relationships and their importance than the Reagan administration does. And they also be-lieve that government is responsible for economic security whereas the Reagan administration is more inclined to benign neglect.

The Europeans, because of their geography and greater dependence on trade, also accept the view that there is more advantage than risk in developing broad commercial relations with the Soviet Union.

The Reagan administration is less interested in trade with Moscow, except, perhaps, when it sees an opportunity for domestic political ad-vantage, as in the resumption of grain sales despite the fact that the Red Army is still occupying Afghanistan and threatening Poland. It is also more emphatic about the military links.

The Europeans believe that along with military strength. Western security depends, with almost equal emphasis, on economic strength and drawing the Soviet Union into a mutual web of interests with the West. Accordingly, they cling more tightly to their social programs and to detente than the Reagan administration

Emphasis on Military Spending

The Reagan administration puts a strong emphasis on military spending and contends, with some justification, that the Europeans are not carrying a fair share of the global burden. Since it is highly unlikely that there will be fundamental shifts in outlook soon in either

Europe or the United States, some ways of bridging the gap need to be found.

It would be fine if Europe could simply carry the conventional military burden with which it feels comfortable and which it can afford more easily; if the United States would bring down its interest rates to accommodate European economies, and if the United States would carry the entire nuclear burden and also police the Gulf.
But the United States is not able to do all of

that Nor should it have to in 1981 considering the relative economic power of Europe and Ja-

It is time for the Europeans to reconsider the long-range related problems of security and preserving common Western values. In return, the United States would very likely become more accommodating on short-term questions such as interest rates and specific

arms control negotiations.

... And the Need for Consensus

By Joseph Fitchett

DARIS — A lack of strategic consensus between the United States and its European allies has created tensions in NATO that run deeper than any of the individual transatlantic disputes that periodically make headlines.

The tension has precedents in the 1950s and 1960s, marked as they were by NATO bickering about nuclear weapons, U.S. forces in Europe, and alliance members' handling of decoloniza-tion in Indonesia. Egypt and Al-geria. NATO emerged from this turbulence into comparatively smooth sailing in the 1970s.

This resilience could recur, but NATO has lost two assets - rising prosperity and comfortable as sumptions about Soviet intentions - that cushioned Western cooperation in recent years.

Public Interest

Another factor is a new kind of public interest in defense on both sides of the Atlantic, creating domestic pressures that reduce governments' margin for compromise in alliance decision-making.

Pondering these tensions, many diplomats recall that NATO en-tered the 1970s after a major overhaul of alliance doctrine. The Harmel report, named for the Belgian who oversaw the yearlong policy review in 1967, assigned NATO a dual role of fostering both defense and detente.

Partly a public relations exercise, the Harmel report also sealed a strategic trade-off in the alliance. European allies complied with a U.S. wish to change deter-

A Parallel?

As is well known the border be-tween the United States and Mexi-

co was once much further north

than at present. In the area once

owned by Mexico, a band of states

stretching from Texas to Califor-

nia, there is now a large and grow-

ing minority of Hispanic Ameri-

One day, perhaps in our own

lifetime, it is conceivable that these

people will demand the "reunifica-

tion of Mexico." As this is unlikely

to receive the support of the Eng-

lish-speaking majority of Americans, the United States will then

find itself in roughly the same po-

—Letters—

massive retaliation — obsolete be-cause of Soviet missile power — to a flexible-response plan based on NATO's ability to trump any Soviet escalation. In exchange, the United States

accepted West European thinking about the need for detente, allowing West Germany to start its Ostpolitik dialogue with the Soviet

With its double emphasis on military strength and on cooperation with the Soviet Union, the Harmel formula enabled NATO to satisfy both military planners and public opinion anxious for signs of peaceful change.

Now Western officials are eyeing another such alliance exercise. The idea would be for NATO governments to confront their security views and work out a new alliance consensus of common pur-pose and individual responsibility. This new deal would give govern-ments fresh leverage with their bureaucrats and voters.

it would have to cover at least five major problems. Soviet threat. The prevailing U.S. view is that Soviet military

power and political purposes have become a global threat, necessitating a global response from the Western alliance U.S. officials portray the Soviet Union as an economic cripple whose influence can be checked by allied military

European leaders reject this confrontational approach. They tend to believe that Soviet behavior will improve if the West maintains the right mix of incentives and firmness. In contrast to U.S. views. rence doctrine, moving away from many European analysts believe

sition as that of the British govern-

ment at the present time in North-

nority within the Hispanic minori-

ty then decide on "direct action."

such as the blowing up first of

buildings and statues, then of peo-

ple, the murder of policemen and

what then would the ordinary U.S.

citizen think if we in Britain sup-

ported the terrorists? What would

the relatives of the victims think

when they saw crowds in Britain

carrying banners saying, "Yanks

R.J. SILBURN.

get out of Mexico"?

Epsom, England.

the intimidation of witnesses -

Let us imagine further that a mi-

ern Treland.

that the Soviet system is capable of . liberalization. • Western intervention in the

Third World. Washington seeks European support for a stronger Western military role in the developing countries, where Europe has an even greater economic stake than does the United States.

However, Europeans are reluc-tant to expand NATO activities outside the European theater. Instead of Western military force, which they fear may destabilize friendly governments. European governments prefer economic aid as an instrument for stabilizing trouble spots.

 Defense spending. The Reagan administration, while tactfully retreating from 3 percent as a mathematical formula for increased defense spending, nonetheless insists on more military output from all NATO countries.

In Europe, governments are trying to meet this demand by rationalizing their defenses - a process that involves cuts in some services to finance improvements elsewhere.

The risk is that these defense adjustments are being decided na-tionally, not collectively. At worst, these separate programs could start a mini-disarmament race among the allies as European governments compete to divert more military funds to the civilian economy. At best, national programs useful to try a wise man's exercise could leave each country better off to do it. separately - but NATÓ worse off collectively.

· Economic security. The Reagan administration has made economic revitalization its absolute priority, but without any concessions on rearmament.

European leaders, in contrast, worry that defense spending could jeopardize the economic stability that underpins their national security.

cians link national security to economic stability. They therefore want to protect their welfare pro-grams, increase their development aid and avoid economic warfare against the Soviet bloc.

 Nuclear modernization in Europe. U.S. planners say that Europe needs to install new missiles capable of striking the Soviet Union. In U.S. eyes, this step would reinforce deterrence in Europe, thus reducing the risk of war.

Nuclear Equilibrium

European leaders instead emphasize arms control negotiations to produce nuclear equilibrium in Europe, ideally at a lower level reduced Soviet deployment and perhaps no new U.S. missiles.

The nuclear issue is the most acute point of divergence. It cannot be conjured away by creative bookkeeping or communique-writing. If the missile program unravels, U.S. officials say, U.S. support for NATO will plummet. These divergences between the

United States and Europe ought to be reconcilable. Senior officials from many capitals — including Bonn. London, Rome and Washington - agree that it would be

At the same time, most of them forcefully said that any such initiative should wait for a year until NATO gets past the present uncertainty about nuclear moderniza-

D1981, International Herald Tribune

tion and to Christina (plus other beneficial institutions) on the basis of a secret lottery in Zurich to ensure equality in the assessed worth In other words, European politi-

of vessels. A draft charter was drawn up to make certain award winners were democratically selected. Then the initial jury members were chosen. The first awards — to Mr. Macmillan and Mrs. Veil - were pre-

pean Community.

sented last year after a few preliminary jury meetings for organiza-tion and discussion. The system worked out enough to avoid the usually intricate Nobel investigative apparatus and to choose a minimal number of dossiers each year from which an intelligent jury could seek to agree on the most clearly eligible favorites. The Onassis selection system is thus looser and more flexible than that of the Nobel Prizes.

Prizes

From

Greece

By C.L. Sulzberger

\$100,000 prizes respectively named for Athens and Olympia, granted

to international figures or institu-

tions for services rendered human-

ity, Greece — through the private institution known as the Alexan-

der S. Onassis Public Benefits

Foundation - has successfully es-

tablished itself as another interna-

tional benefactor comparable to

the Nobel Prizes, named for the Swedish inventor of dynamite.

When Aristotle Onassis died his

will provided that half his shipping

fortune should be devoted to the

memory of his only son, Alexan-

der, who was killed in an air crash. The other half was left to his

daughter, Christina, who has al-

A small international jury of men and women — including the president of France's Sorbonne,

the former head of Royal Dutch Shell, and an ex-chief of the U.S.

Federal Reserve Board - has to

date considered such nominees for

two annual awards as Lech Wale-

sa, the Polish reformer. Bishop

Desmond Tuta now in a South African prison; Robert McNamara president of the World Bank; Tito; Manolis An-

dronikos, the archaeologist who

excavated the royal Macedonian

tombs; as well as last year's initial winners, former British Prime Minister Harold Macmillan, for

his committee to save the Parthe-

non from pollution's effects, and

Simone Veil, first president of the

European Parliament.
The \$300-million fund devoted to public purposes, including the prizes and scholarships, is bound

to increase unless unexpected dis-aster hits the shipping world. In addition to this large fortune, di-vided between his son's memory

and his daughter, there is a consid-

erable additional fortune deriving

from Aristotle Onassis' nonship-

How It Works

considered various ways of honor-

ing his son's memory. These in-cluded a large hospital, cultural in-stitutions and even a series of an-

nual journalistic and writing awards that would have dwarfed

Inexperienced in the creation

and administration of such en-

deavors, he even contemplated

asking the Swedish Academy, which selects Nobel winners, to

choose Onassis prizewingers as a

The final arrangement reserved

income derived from half of all the

ships owned by the Onassis enter-

prises as specific assets of the foundation, and half for Christina or for additional charitable enter-

An example—and, one hopes, a precedent—of how the Onassis

Foundation hopes its beneficiaries

will use their prizes - not for

themselves but for the public

through enterprises with which

they are associated — was set last

year by the first winners. Mr. Mac-

millan never even saw his check.

He requested it be made out di-

rectly to the Parthenon committee

be chaired. Mrs. Veil simply en-

dorsed her check over to the Euro-

The foundation was set up in

1976. The two estate parts were

capitalized by the Onassis ships.

whose value was computed by experts, vessel after vessel, and then

allotted separately to the founda-

parallel to the Nobel awards.

Before his death, the billionaire

ping wealth.

the Pulitzer Prizes.

ready helped the foundation.

THENS - Having recently concluded the award of two

While the financial underpinning of this enterprise would seem more than guaranteed since additional capital should normally accrue to it each year, the testament that created it installed the emergency guarantee mentioned above. In the case of any unexpected crisis, Christina would grant the prize foundation an extra \$1 million annually to sustain it in any emergen-

This concept is in the best tradition of modern Greek wealth, which has already seen the errotion of many public buildings such as hospitals and museums with private bequests and even, early this century, saw a rich national benefactor leave to his country the funds to buy a bartleship — which for a time, shifted the naval balance of the eastern Mediterranean 0/981, International Herald Tribene

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Green 'Escape From New York: Unnerving for Everyone

By Thomas Quinn Curuss

DARIS - John Carpenter is a relatively youthful directorscenarist who has specialized profitably in horror films. In his latest venture, "Escape

From New York," Carpenter has wed the horror flick and the catastrophe epic. With street violence, terrorism, gladiatorial combats, goonish heavies and dire political prophesies, it has something to unnerve everyone.

Its scene is Manhattan in 1997 as World War III draws to a close after vast destruction. The island is the last stand of anarchistic bands whose stronghold is a gigantic filthy jail, and the U.S. president, who has been preparing an armi-stice with the Soviet Union, is a hostage in this dilapidated Manhattan after the hijacking and crash of his plane.

A war veteran, sentenced to life for post-demobilization crimes, is recruited with a promise of pardon to liberate the commander in chief. As a precaution, he is by some science fiction hocus-pocus injected with explosives and will blow up if he does not accomplish his mission within 24 hours. Carpenter has succeeded in dramatizing this paranoid fantasy into an exciting futuristic thriller.

He has the right actors for the right roles in Kurt Russell as the ne-eyed, devil-may-care rescuer, Ernest Borgnine as the leftover taxi driver of the now-rotten Big Apple, and Donald Pleasence as the president, but in casting the black actor Isaac Hayes as the sadistic dictator of the wrecked metropolis he risks a charge of rac-

The film, billed here as "New York 1997," is at the Paramount Hou ha City, the Monte Paramount Odéon in English. City, the Monte Carlo and the

It is disappointing to find Peter

Bald Eagles Making Comeback in U.S.

United Press Internation PATUXENT, Md. - Bald eagles may be making a comeback along the shores of the Chesapeake Bay, the National Wildlife Federation said Monday.

Michael Pramstaller, a spokes-man for the organization's Raptor Information Center, said coastal areas of Maryland, Virginia and Delaware produced at least 95 fledgling eagles this spring — a sig-nificant increase over the 72 eaglets recorded in 1980.

Yates tramping the well-trod who-dunit path in "Eyewitness" after the exhibitantion of his comedy about American adolescents, "Breaking Away." It is not that his new film is either incompetent or dull. It is nimbly engineered, but it does have a dejà vu air with its

Nazi-persecution overtones.
In somber, present-day Manhattan, the jamitor of an office skyscraper discovers the body of a slain Vietnamese diamond importor and suspects a fired colleague. The web of the mystery stretches when the janitor meets a woman television reporter whose broadcasts have mesmerized him and he is introduced to her family circle.

Yates' direction holds the attention and lends the action vigor, while William Hurt as the bewildered janitor, Sigourney Weaver as the pretty TV commentator, Christopher Plummer as the suave older man in her life, and Irene Worth as her mundane mother lift it from the routine with excellent acting. It is an above-average detective melodrama, but it makes no call on Yates' talent for humorous observation, a talent of more value than the manufacture, however expert, of murder mysteries.

"Eyewitness" ("L'Oeil du temoin") is at the UGC Danton and the UGC Biarritz in English.

Robert Louis Stevenson's "Dr. Jekyll and Mr. Hyde" reappears for the fourth time on celluloid in Walerian Borowczyk's "Dr. Jekyll et les femmes," a soft-core adapta-

The famous Stevenson fable was initially seen on the silent screen with John Barrymore negotiating the quick change. Rouber Mamoulian produced a pictorially handsome talkie with Fredric March in the dual role, for which he won an Oscar. Later, Spencer Tracy took a ludicrous stab at the split personality and missed.

Borowczyk is guilty of every possible mistake, beginning with his selection of Udo Kier for the part. Kier's spooky look antici-pates the transformation and when the change comes he is turned into something resembling an Oriental

Furthermore, he has so clouded the plot line that it is often impossible to decipher, and we have for the most part the chameleon physician chasing, deflowering and knif-ing women who have injudiciously accepted his dinner invitation. Pa-trick Magee's presence is an attempt to create the mid-Victorian period, while the gracious Giselle Preville as Jekyll's mother-in-law suggests, with her white wig and aristocratic manner, an 18th-century Watteau specter.

Waverley Root.

St. John, the Carob and Locusts

THE CAROB is also called the locust bean or St. John's bread because of the belief that this is what John the Baptist ate during his 40 days and 40 nights in the desert and not what the Bible says he ate, locusts and wild honey.

This was apparently a diet too unpalatable for belief, or perhaps considered unworthy of a saint high in the heavenly hierarchy. The carob seemed a plausible alternative, for its pods, though somewhat leathery, are edible, and could stand for the locusts. The sugary pulp they contain would be the

It is my opinion that St. John are exactly what the Bible says he did, locusts and wild honey -"an excellent combination of proteins, fats and sugars," according to "Food in Antiquity" by Don and Patricia Brothwell, who also think that this is really what John the Baptist ate. In his time and in his part of the world locusts were eaten as a matter of course, and still are - for instance by the Bedonins. Another people who are locusts then and are still eating them are the Yemenites of Israel, who preserve the desert locust by drying it in the sun or baking it in an oven, keeping the insect whole until they are ready to eat it. The head and the indigestible wings and legs are removed at the last minute. It is maintained that this technique is a refinement which guarantees the delicacy of the

insect's flavor.

Ancient Hebrews were exigent about what might be eaten and what was forbidden, but there was no Biblical prohibition against eating locusts. On the contrary the faithful were even encouraged to do so, in Leviticus.

The Moslem attitude was the same. Henry Lhote explained in "Dans les campements Touaress" that for this Saharan people "all meat, in order not to be djifa (unclean) must come from an animal which has had its throat cut according to Koranic ritual. The only exemptions from this obligation were fish and grasshoppers." The preparers of Moslem food were thus released from the necessity of having to develop a technique for cutting the throats of locusts. Some other obligations seem to have differed with the sect. For some locusts which had died of cold could not be eaten; for others, the heads had to be cut off. Locusts are eaten in many Moslem countries today, "Their abundance in some areas, their pleasant taste, and the relative ease with which they can be captured make them an obvious and easy source of food," the Brothwells point out.

Praise From Shakespeare

I imagine many would be surprised at hearing the locust praised in terms of taste; but Shakespeare did it, although he put his description in the mouth of an untrustworthy witness, lago, who pre-dicted to Roderigo that Othello would soon tire of Desdemona: "The food that to him now is as luscious as locusts, shall be to him shortly as acerb as the coloquintida." If you own the Yale Shakespeare you may want to question the theory that Shakespeare was really talking about insects, on the strength of that edition's notes. The annotator says that "coloquintida" is an intensely bitter drug. and that "locusts" here means "cassia fistula, a sweet fruit." It is true that a drug is made from colycynth, but it is also a fruit which is frequently eaten although bitter. As for cassia fistula, sweet or not, it is a strong purgative. I am inclined to believe that Shakespeare, a man erudite in many fields, including, perhaps, the diet of Moors, meant locusts when he wrote "locusts."

From the nutritive point of view St. John might have been just as well off with locusts. Carob flour provides only 4.5 grams of protein per 100 grams of meal, as compared to 11.7 for buckwheat flour and 20.5 for chick-peas. It contains only 1.4 grams of fat and is rated at 180 calories (which is why it

goes into dieting foods), but no vitamins or minerals except calcium. According to the Brothwells: Analysis of dried locusts has revealed percentages of up to 75 percent proteins and about 20 percent fat; 100 grams of locust, when analyzed, showed the presence of 1.75 mg, of riboflavin and 7.5 mg. of nicotinic acid (vitamin B2 complex), demon-strating that they are also of value for their vitamins. There is thus no reason to doubt their food

value - and at times even survival value. The first incontrovertible evidence that men were eating locusts (legs and wings in coprolites) dates from Neolithic times, but they were probably being eaten earlier. During some periods locusts have been a food fit only for the lamished, or at least a food of the poor which was therefore disdained by the well-to-do. Eaters or sellers of these insects would then disguise them under cuphe-misms. Aristophanes called them "four-winged and Marco Polo reported that they were referred to by the Chinese as "brushwood shrimp."

Mesopotamians and Greeks

The heyday of the locust came in Biblical times, in Mesopotamia, when they appeared on royal ta-bles like those of Belshazzar and Asurbanipal. The Greeks did not boggle at locusts. In the fourth century B.C. Alexis of Thurii, writing of the hard life of a poor family of five, complained:

Yet, alas! have we Nourishment for only three! Two must therefore often make A scanty meal of barley cake . . . And our best and daintiest cheer. Throughout the bright half of the year, Is but acorns, beans, chick-peas, Cabbage, lupins, radishes. Onions, wild pears nine or ten. And a grasshopper now and then.

This makes the grasshopper sound like dessert. But locusts do not seem to have been common Greek food three centuries later, for when Diodorus described an Ethiopian tribe, he called its members Akridophagoi. locust eaters, as though such a diet set them apart. Ethiopians still eat lo-custs, and in spite of their two millenia of experience, seem to be the only people today who do not insist on removing the wings and legs; it has been suggested that this may be why they are subject to intestinal disorders. Consumers are more finicky in other parts of Africa, where locusts are eaten almost everywhere, but especially in Uganda, by the Pygmies, and in the Sahara where, the U.S. anthropologist L. Cabot Briggs reported, they are eaten when they descend on the plantations." The Imperial Government Institute for Nutrition has recommended them for their food value in Japan, where they are described as a popular food. In China they are deep-fried, just as they come, or

coated with a thin batter — grasshopper fritters.

The locust-grasshopper does not loom large in American gastronomic history. The Digger Indians ate them until quite recently, but out of necessity rather than gourmandise. It was not for gastronomic reasons either that the government recom-mended them because of their high protein content to soldiers in Vietnam being trained in survival

The only other usage of grasshoppers I know of in the United States occurs in more luxurious surroundings - cocktail bars, where canned fried locusts can sometimes he found to munch with drinks as a change from salted peanuts or potato chips. But it appears they can also be found in an environment which is nothing if not normal -

C1981 Waverley Root

Lifestyles

U.S. University Trains Sheepherders

By Marguerite Herman The Associated Press

CHEYENNE, Wyo. — Help wanted: Person who likes solitude, can cook at high altitudes and does not mind living in a tincovered wagon on the range for months with only a horse, dog and

sheep for companionship. A chronic shortage of native sheepherders throughout the American West has forced many ranchers to turn to Peru, Spain or Mexico to find help.

Most wool growers would prefer to hire at home to save expense and trouble. To fill the need, the University of Wyoming has begun the nation's only sheepherding

of people in this country who might be interested in this kind of thing," said Frank Hinds, chair-

By David Stevens

BRUSSELS — Maurice Huis-International Herald Tribune

D man is completing his 22d and final season as the director of

the Théâtre Royal de la Monnaie.

and as a farewell gesture the vener-

able house's component units have

put together a special spectacle, of

which Maurice Béjart is the chief

the happy idea at the beginning of his regime of inviting Béjart and his new Ballet of the 20th Century

to make its home here, where it has

since shared the theater with the

Belgian National Opera. The opera

company remains primarily of lo-cal interest, but Béjart and his in-

ternational troupe have written

Brussels in large letters on the

The show's seemingly obscure

title, "La Muette," has multiple

references. The most obvious is to

Auber's rousing opera "La Muette

de Portici," a performance of

which in this theater in 1830 - ac-

cording to Belgian folk history -

sent an inflamed public into the

streets to ignite the revolution that

made Belgium an independent

country. Another is to the stub-

bornly mute girl in Molière's "Médecin malgré lui," used here as a metaphor for incomprehension

through speech - as opposed to

the supposedly higher communica-

In a baker's dozen of scenes

strung out in a theatrical collage

lasting 21/2 hours, without an inter-

mission. Bejart and his colleagues

(Bernard De Coster as co-producer

and Thierry Bosquet as designer)

trot out a mixture of dislocated

operatic excerpts, danced inter-

bility of music and dance.

world dance map.

Fair enough, for Huisman had

man of the university's animal sci-

Hinds said "field work" should be an integral part of the program to weed out those not cut out to be shepherds, "Some might have a ro-

mantic view of herding, who don't appreciate the solitude and work involved," he said. Bill Bonde, executive director of the Western Range Association in Fair Oaks, Calif., welcomes such a

program. His organization serves about 240 wool growers in 10 Western states who come to him to find herders. He said courses are offered elsewhere, but none teaches the skills of year-round herding. Jessie Baker, executive director of the Wyoming Wool Growers Association in Casper, Wyo., also

ludes, visual puns and inside jokes. At times it is broadly funny, at

others it seems like a Gerard

Hoffnung concert with the humor

During a silent prelude, dancers are displaced on the stage by the

orchestra, which launches into the

overture (Verdi's for "Un giorno di

regno" — King for a Day) under the conductor Ronald Zollman.

"No Exit" consists of a series of bleeding chunks of familiar operas

overlapping one another, and not

all that well sung. The relevant

Molière scene is played, or paro-

died, the muette herself being a mummy wrapped in bleeding

bandages, vainly trying to get a

In "Loneliness," the mummified

mute babbles noiselessly into a mi-

crophone, a blind man watches

television, the conductor waves his

arms over a tape recorder playing Mahler (the Adagietto of Sympho-

ny No. 5), and a man in black

(Jorge Donn) dances an anguished

The most agreeable choreogra-phy was a waltz set to one of Ar-

nold Schoenberg's lean transcrip-

tions of Johann Strauss, and the

funniest collage mixed the "Puri-

tani" quartet with a septet of danc-

ing Salomes and John the Baptists,

who then became Valkyries and

Valhalla-bound heroes as the mu-

sic shifted to appropriate Wagner.

The postlude had Maryse Patris crooning the waltz from The Mer-

ry Widow," to an accordion ac-

companiment on a stage full of

shabby refugees. A sad, nostalgic

farewell, or perhaps some tongue-in-cheek reminder that Béjart's

savage staging of the operetta in

the 1960s sent Lehar's heirs run-

ning for their lawvers.

solo in search of the way out.

word out.

extracted, or wordless lonesco.

"It's pointed toward a number thinks the school is a good idea. "Very few people want to learn how to herd and stick with it," she said. "We do have people who

Theater in Brussels

Béjart's Huisman Homage

ence division.

not quite all that easy. Not just evervone can be responsible for 1.000 head on the range."

Hinds said that the necessary skills had little to do with sheep. "It's more related to having people who know how to cook at high

want to herd for a summer, but it's

altitudes, know how to handle their own housing and personal hygiene under conditions that are not typical." he said. "Most of these people are living 30 to 60 miles out of town."

Bonde said his association gets applications from people who want to work at busy times, such as the lambing season, "But they don't want to go with the bands of sheep and stay in the hinterlands for the whole year," he said.

Up at Daybreak

The shepherd gets up with the sheep at daybreak and beds them down at night, and for seven or eight hours in between "he does nothing." Bonde said. Pay is about \$590 a month, plus room and board and health benefits, Jim Popple of the Wyoming

Crop and Livestock Reporting Service estimated that half of Wyoming's approximately 300 sheepherders are immigrants, mostly Basques from Spain. Of the 800 foreign herders the Western Range Association has placed in the West, 60 percent are from Peru, 20 percent from Spain and 20 percent from Mexico.

Bonde's organization must post job requests for 60 days before get-ting clearance from the Labor Department to bring in foreign herders on three-year visas. For the grower, using foreign herders means paying the round-trip fare, health insurance, workmen's compensation, the association's fee and facing possible problems of language and culture barriers.



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Electronics make driving safer and more comfortable: they ease the strain on the driver and help improve his driving skills. At the same time, electronics make R easier to meet the ever-increasing demands for stricter emission controls and greater fuel economy.

Computer-controlled engines, pioneered by BMW with innovations such as digital motor electronics, can optimise fuel consumption to a pre-viously impossible degree. They create completely newstandards in terms of fuel efficiency. The result is a 5% to 10% drop in fuel consumption under normal driving conditions. And that is only one example of what electronics can achieve.

Electronics can counteract human error and enhance the performance of conventional automotive technology. A wrongly adjusted carburettor or ineptalterations to the ignition system during the lifetime of a car, can quite easily increase petrol consumption by as much as 10%. Cars which waste fuel because of conventional technology or poor maintenance are something we cannot afford - neither now nor in the future. To err is human and too expensive. And BMW technology illustrates just how unnecessary energy consumption can be avoided.

No other car manufacturer applies advanced electronics as consistently or as comprehensively as BMW, in order to make automotive technology work more efficiently. In addition to digital motor electronics and electronic fuel injection, other examples include transistorised ignition, anti-lock braking, electronically self-levelling rear axle suspension, automatic cruise control, on-board computer and check control. And to meet the demands of the future we are already testing new concepts such as optimum-efficiency petrol engines, part-load cylinder shut-off and the use of substitute fuels. And in all these areas BMW electronics plays a vital role in providing better solu-



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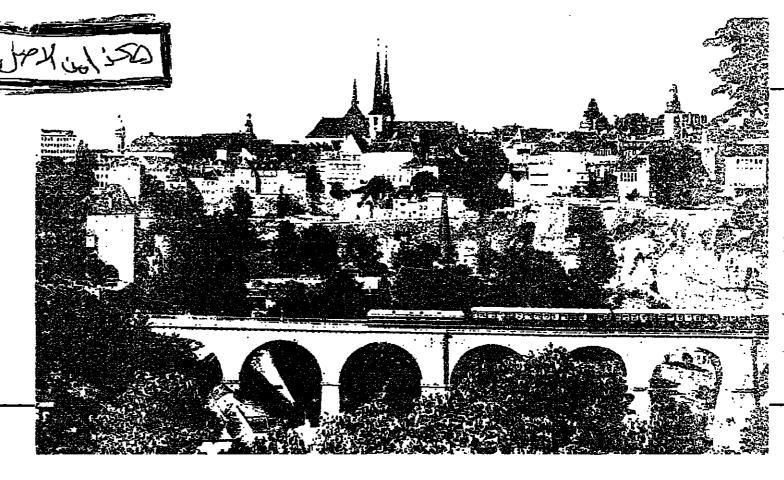
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Herald Tribune

PARIS, JUNE, 1981

Banking and Finance LUXEMBOURG

· A SPECIAL SUPPLEMENT



SINCE 1856 — The Banque Internationale a Luxembourg has just celebrated the 125th anniversary of its founding. But it is only in the last two decades that it has made its presence felt on the international scene. See article inside.

Running Hard and Maintaining Position

By Jasper Becker

Now HERE, it takes all the running you can do to keep in the same place. said the Red Queen to Alice in Lewis Carroll's 'Through the Looking Glass.

In the 20 years it has taken Luxembourg to become Europe's second city for Euromarket transactions, it is now that the Red Queen's observation is most relevant. Luxembourg's efforts to remain competitive with other offshore banking centers means that it has to run fast to stand still. If it does not, the banks that have brought prestige, employment and prosperity will go elsewhere.

The Boulevard Royal loops around the old city center in the site of the once formidable city walls: This is Luxembourg's Wall Street. with 112 banks from around the world. "They are all here for different reasons," a banker

Ernest Muchlen, the Luxembourgian secretary of state for labor and finance, explained: "While the growth in the number of banks has been encouraged by certain factors indigenous to Luxembourg, it is just as true that this development has been stimulated by circumstances outside the Grand Duchy.

This is not surprising. The Grand Duchy is a 1,000-square-mile wedge of land squeezed between France, Belgium and West Germany. Since the early 1920s, it has been linked to Belgium by an economic union (UEBL). Over the centuries, foreign armies and their potentates have come and gone but the Luxembourgers have kept their language and their cultural identity.

Part of the attraction for foreigners has been the capital, perched across two ravines and dubbed the "Gibraltar of the North." It is ruled by a grand duke, whose family has been in power since 1890. The city, with a population of 80,000, has a romantic and fantastic air about it — a jumble of bridges, battlements and spires that draws thousands of tourists in the summer months.

The Euromarkets are loosely defined as transactions made in a currency outside its country of origin - a Eurodollar is one that has been deposited and re-lent outside the United States. The banks that handle this business are generally attracted to places where

This 1.000-square-mile wedge of land has grown dramatically as a financial center in the last few years. It is not a tax haven, vet it has attracted 112 banks. They are all here for different reasons,' said one banker.

taxation is low and no central bank exists to be disturbed by the movement of large amounts of foreign currencies. The market got under way in the early 1960s when the United States tried to protect the dollar through a series of capital control measures, in particular the Inerest Equalization Tax.

Money can be raised in Euromarket centers at an interest rate below that afforded by domestic banks for a variety of reasons. First, because the banks are free of the solvency ratios imposed by central banks applying monetary control policies, they can lend more mon-ey with smaller equity reserves. Second, the banks benefit from being in

offshore centers that are tax bavens, although

this does not apply to Luxembourg.

Third, long-term funds can be raised in the form of bonds, and the returns are not taxed. The point here is that taxes on interest payments are usually withheld at the source, as is done for some domestic bond issues, and, because the amount that could be reclaimed against withholding taxes varies from country to country, it is not possible for investors who buy bonds to get the same after-tax return in every country. Bonds are thus issued in Eurobond centers because they are not subject to a tax on interest repayments.

Spreading Risks

In order to spread the risks, there is a merrygo-round of banks accepting deposits from some banks and placing deposits with other banks. Although this structure has proved more durable than had been leared, it is based

on a kind of impossible logic. The business that came to Luxembourg initially was the raising of long-term capital in bonds, needed by U.S. or European companies unable to find it so readily at home. Relatively small amounts were raised in the early 1960s. Then came the explosive rise in the cost of oil, resulting in major distortions of the interna-

tional balance of payments situation. The oil importers had large trade deficits,

The growth of the Euromarkeis slowed dra-matically in 1979. The growth in 1977-1978 was 68 percent, but in the following year, the figure was 18 percent. The Eurobond market grew only slightly in 1980 after the 1979 record year, because of wildly fluctuating interest Outpaced Market and the oil-exporting countries had correspondingly large surpluses. Recycling be-came the order of the day. The Eurobanks Luxembourg's role has outpaced the growth were the means by which the funds of the members of the Organization of Petroleum Exporting Countries were lent to the oil import-

ers to repay the exporters. Nobody knows

quite how much money is recycled in this way. Last year, the OPEC surplus was \$120 billion.

while the developing countries' deficit was put at \$70 billion. The Western industrialized countries and Comecon countries had a com-

The recycling system was jolted in 1980.

Only \$77 billion worth of new credits were giv-

en, a drop of 6 percent from 1979. Oil prices

continued to rise, but the developing countries

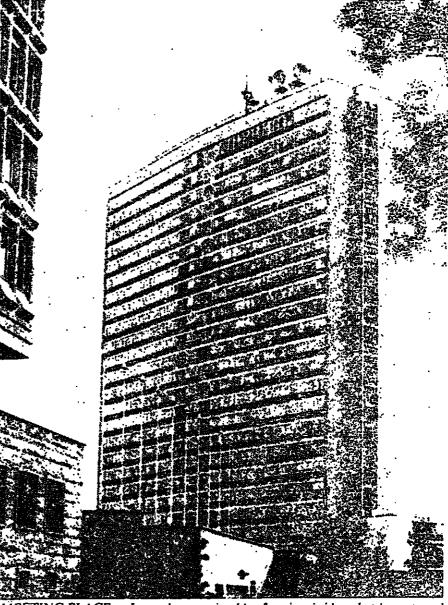
absorption of credit dropped from \$47.9 billion to \$34.9 billion. Borrowing by the industrialized countries increased, however, from \$27.2 billion to \$39.7 billion.

bined deficit of \$55 billion.

of the market. The volume of business transacted in Luxembourg has shown an annual growth rate of 25 percent during the last years. Between 1973 and 1980, the share of Luxembourgian banks in total deposits received by banks dealing in the Euromarkets increased from 6.6 percent to 11.7 percent. For credits, the percentage is even higher — 12.7 percent. But, in line with world trends, the growth in new bond issues has slowed, although Luxembourg's contribution of \$18.2 billion represents 20,9 percent.

The reasons behind this dynamic growth explain in part why the expansion is slowing and why Luxembourg must struggle to keep what it

Commonly cited reasons for the attraction (Continued on Page 10S)



MEETING PLACE - Luxembourg, a jumble of ancient bridges, battlements and spires, draws thousands of tourists each year, It also houses the European Center, with a hemicycle and offices in a 22-story high-rise, above. See article inside.

German Banks on Scene First, Set a Hot Pace

A embourg banking circles in January when the acting chief executive of the Com-merzbank, Paul Lichtenberg, publicly ques-tioned the value of the bank's Luxembourg subsidiary. He has since retracted his statement, claiming that he was misinterpreted, but the commotion that followed revealed that the question struck a chord among the West Ger-

The disastrous results of 1980 have led many banks to reconsider their policies. Now, after the all-out growth in the 1970s, diversification -not expansion - has become the aim.

The West German banks are important because they were the first and largest group of foreign banks to arrive in the Grand Duchy in force. Twenty-nine now dominate the scene, handling a major share of the business. In terms of the bal-German banks lead the field: the Compagnie Lux-embourgeoise de la Deutsche Bank Compag-nie Financiere Luxem-

bourg, Commerzbank In-ternational and, well be-

hind the other three, the Westdeutsche Landesbank

International.

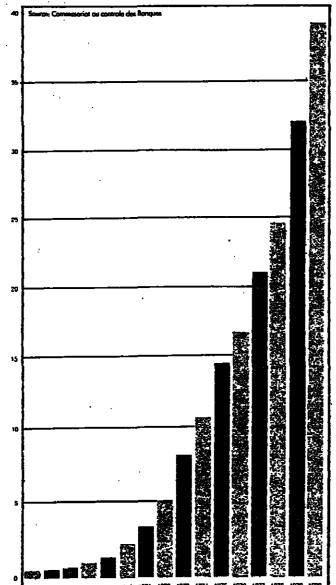
is Capanian

The Grand Duchy was the first foreign outlet when the German banks began belatedly to expand abroad after the war. Luxembourg was chosen to escape the minimum reserve requirements at home, and because it was close to home and language problens were minimal. created Luxembourg," a Frankfurt banker claimed, a bit brashly.

The Dresdner Bank was, in fact, the first German bank when it arrived in 1967. Within a few years, the others followed. Profits were high because the more liberal banking climate in Luxembourg requires only that a bank's equity must not fall below 3 percent of its lending. In Germany, the Kreditwesengesetz, the banking law, limits the credit volume of a bank to a factor of 18 times its basic capital and reserves. Because of the heavy German presence, Luxembourg has become the capital of the Deutsche mark bond, with more than 40 percent of the issues in DM bonds.

It was not surprising, therefore, that Mr. Lichtenberg's question achieved the publicity that it did. At the beginning of the year, the Landesbank Stuttgart had decided to move the bulk of its personnel to the London office, which had opened simultaneously with the one in Luxembourg. The decision by the small newcomer seemed another straw in the wind, but the move in fact reflected less a disillusionment with Luxembourg than a realization that the Landesbank had overstretched its resources. The Luxembourg office will therefore probably be reactivated in better times.

That there has been, and will be, some soulsearching among the German banks is undeni-



STEADY GROWTH - Chart shows the increase in funds of the banks of Luxembourg since 1965. Figures at left are units of 100 billion Luxembourg francs.

able however. For West German parent banks, 1980 was marked by the worst performances since World War II - and the previous year's profits had been slim. The Commerzbank registered a 70-percent fall in group profits and won the dubious distinction of being the first bank in a generation not to pay its shareholders a dividend. The profits of Westl.B fell from the 121 million DM of 1979 to 45 million DM.

Coupled with the slump in profits is the prospect of the revision of the Kreditwesengesetz. Discussions are being held in Berlin and Frankfurt on the consolidation of overseas subsidiaries' accounts, which might lead to further reductions in the profitability of operations in Luxembourg and elsewhere abroad.

However dire some of these events may seem, the reality is less clear-cut. How the parent bank is managed need not directly affect the viability of its Luxembourg subsidiary because profits are also a question of accounting.

There are wide differences in the way each

bank has been hit - or has judged the events of the last 18 months. The Compagnie de la Dresdner Bank, for example, has produced profits of about 700 million Luxembourg francs, considerably less than the year before but hardly negligible. The Deutsche Bank creased profits slightly from 550 million Lux-embourg francs for 1979-1980, but produced none in 1980. For the same periods, the Westdeutsche Landesbank International's profits fell from 673 million to 587 million to 484 million Luxembourg francs, while its capital resources grew from 3.5 billion Luxembourg francs to 4.4 billion.

Syndicated Lending

All the Luxembourg banks have been hit by the general decline in margins on syndicated lending, and the need to write down substantially their holding of bonds, given the sharp price declines of international fixed securities. While the U.S. dollar has strengthened, the DM has reacted more slowly because of the Bundesbank's tight monetary policies. Shortterm interest rates for Deutsche marks have remained high, making it particularly expensive for the West German banks to hold bonds

in that currency.

The Commerzbank has come under the heaviest fire, partly because it was the first bank to admit that it had wrongly assessed the interest rate development for the DM. For the

Luxembourg subsidiary, which needed an in-

Nation's Size, Social Plans Buffer West's Economic Crisis

L UXEMBOURG is anything but isolated from the Western world's economic crisis. During the last twelve months, its economy has experienced stagnating output of goods and services, worsening unemployment and in-flation, plus a widening budget deficit. More-over, Western economic analysts are predict-ing that, like its European neighbors, Luxembourg can expect no relief until the end of next year at the earliest.

But mainly because of its small size, generous social programs, and the long-established and cozy relations between politicians, business and government leaders, outsiders rarely attach the same significance to Luxembourg's problems as they do to those of its neighbors,

"Small is beautiful, so Luxembourg survives better than most," said a senior government analyst for an international agency who is a specialist on the Luxembourg economy. "As in a small town, everyone there knows each other - the government ministries also are in one building — so problems get resolved easily," he said, adding: "Belgium is a giant by comparison."

OECD Statistics

Indeed, Luxembourg's \$4.2-billion gross domestic product is second from the bottom among the ranks of the 24-nation Organization for Economic Cooperation and Development. Iceland has the smallest GDP, and Ireland ranks third on the OECD list with a substantially larger total of \$14.8 billion. Measured on a per-capita basis, however, Luxembourg ranks well ahead of Japan and Britain, slightly

A slowdown in industrial production is playing a key role in the overall decline. Meanwhile, farm output has remained flat. There are some bright spots - food, wood and furniture — and each has registered modest growth.

ahead of the United States, the Netherlands and France, but below West Germany, according to the OECD.

Luxembourg's immediate problem is coping with a decidely gloomy outlook for world trade and steel output — both crucial for the nation's economy. Yet presently neither sector

show signs of recovering.
In its recently-published annual review of the Luxembourg economy, the OECD con-cluded that in 1981 the nation's GDP will "remain flat or even decline, especially in view of the expected trend of the steel markets."

The GDP growth, which last year averaged 0.5 percent, will actually fall by that amount during 1981, according to government fore-casts published by the OECD. This performance, paralleling similar recessionary conditions throughout Europe, follows growth rates of 3.6 percent in 1979 and 4.3 percent in 1978.

industrial Slowdown

A slowdown in industrial production is playing a key role in the overall decline - notably in steel, but production in the mining gas, electricity and chemicals sectors also has been falling. Meanwhile, farm output has remained flat overall, and wine production has been undergoing what the OECD described as "a very steep decline." There are some bright spots — lood, wood and furniture — and each have registered modest growth.

Although output in the services sector has also been declining — notably Luxembourg's airline operations, which have been hard-hit by fare competition on the North Atlantic - an offsetting effect is coming from Luxembourg's financial establishment. Its employees account for roughly 5 percent of the nation's work force and, as the OECD noted in its review.

the influx of financial and banking institu-

tions into Luxembourg has contributed to the growth of the domestic economy." But by almost any standard, employment problems in Luxembourg are virtually without significance. By early 1981, unemployment had grown to 1.550, split roughly equally be-

tween women and foreigners - a situation hardly explosive for a nation with a total work force of 158,000. The OECD dryly noted that the jobless level, although it had deteriorated, was "still satisfactory."

Luxembourg's inflation, one of the lowest in

the OECD area, is also not causing much alarm among government planners in Luxem-bourg or at international agencies, such as the European Economic Community and the OECD. Although prices last year climbed by 6.3 percent, roughly half the OECD average, the year earlier the rise was only 4.5 percent.

"Considering the low inflation and unem-ployment; the fact that the Luxembourgeois government offers generous social programs and benefits to the jobless and that there are no strikes in Luxembourg, it is clear that its problems are not terribly serious, compared to Belgium, for example," a senior government analyst in Paris said.

Creating Jobs

This is not to say that Luxembourg lacks problems. For example, the government is still in the process of trying to attract new industry to the south of the country. The goal is to create 7,500 jobs in new industries to offset the reduction of workers in the steel sector, but the competition in the form of attractive investment from France and West Germany is "stiff," in the words of one observer.

Also, Luxembourg may soon have to face what the OECD described as a chronic deficit in its national budget. The 198! budget allows for a deficit of 1.4 billion Luxembourg francs. which will be covered by drawing on the budg-

et reserve and by increased borrowing.

Government projections published by the OECD indicate, however, that "in the medium term the Luxembourg economy may experience a chronic public finance deficit which will probably involve new finance procedures."

The OECD concluded that the government's budget reserve by 1984 - for which the goverument believes the "critical threshold" is 3 billion Luxembourg francs - will no longer be sufficient to cover the shortfall. "The new pressures are there and Luxembourg's challenge will be solving them in the presently difficult situation of Europe," a French government budget specialist said.

-Banking and Finance in LUXEMBOURG—

Germans, First on Scene, Set A Hot Pace for Other Banks

(Continued from Page 7S) business. And having 20 percent to continue. The Deutsche Bank is jection of 63 million DM from the 25 percent of the bank's liabilities rumored to have burned its fingers business that could not be done at home. It is artificial to separate the two accounts. The policy decisions are made in Frankfurt.

Although Mr. Lichtenberg suggested in January that it might be better to shift the business to London, as the Swiss Banking Corp. had done in 1978, this idea has been dropped. After all, the Luxembourg subsidiary is no fly-bynight affair and its viability is looked at on a long-term basis.

A drop of 12.4 billion Luxem-

bourg francs from the previous year in the balance sheet total was accompanied at the Commerzbank by a change in policy. Holdings in securities and equity were cut, the former by 10 percent, and greater caution was used in loans to banks and companies. The emphasis is being placed on portfolio management for private customers, a large number of whom began taking ad-vantage of a bullion account. What counts for a Eurobank, however, is the credit volume and, despite the strong upswing in 1980, credit granted by the Commerzbank rose by a mere 6.3 percent.

Customer Credit

The shock becomes greater when one realizes that about 60 percent of new customer credit business in Luxembourg, between January and October, 1980, was due to loans of German subsidiaries to customers in West Germany. More than 50 percent of the balance sheet growth in Luxembourg was the result of these transac-

Although the Commerzbank and others made mistakes in investing in long-term bonds and mismatching these with short-term blunted the desire to lend to anyloans, the pattern is very uneven, The private banks have done well in 1980, not only because they were more cautious and accepted fewer long-term bonds but because they compensated for reduced re-dustrialized countries. But two of sults with trading in foreign ex-

change and gold. Volker Burghagen, the managing director of the Dresdner Bank in Luxembourg, attributes the comparative success of his bank's drumming up new business but year to a greater flexibility allowed by his head office, which has, for circle of clients." instance, found expression in a

parent bank so as not to produce a in non-banking deposits also negative result, it brought home brings a measure of freedom. Rethe fact that it was an outlet for cently, the loans syndication department has been transferred to Luxembourg from Frankfurt.

This policy has paid off. The bank now has the doubtful honor of being the largest single taxpayer in the Grand Duchy. It is fittingly housed in a splendid 18th-century house close to the Grand Ducal Palace. But Mr. Burghagen fears that the bank's prestige may be eroded somewhat when the 1981 report is published because although the worst is over, the poor business may show up only later.

Refinancing Resources

One policy adopted by the Dresdner may be copied by the other banks. For the wealthy international investor, Luxembourg could become another Switzerland. particularly for someone who does not want to put all his eggs in one

basket," Mr. Burghagen said. For a bank, this has the enhanced attraction of enlarging the frame of refinancing resources. To date, with the exception of the Dresduer, non-banking deposits account for only between I percent and 4 percent of the liabilities of most of the German banks. The change would take time and a substantial increase in personnel. For the Landesbanks, this would indeed be difficult without either the branch network or the right sort of clientele.

It is the banks' heightened riskconsciousness that has affected the Landesbanks more than anything else. WestLB continues to place an emphasis on lending, and out of a balance sheet total of 139.5 billion Luxembourg francs, lending accounted for 110.6 billion. The crisis over Poland's debt has

one outside the members of the Organization for Economic Cooperation and Development, More than two-thirds of WestLB's total loan portfolio went to Western inthe directors, Wolfgang Spehr and Horst Senff, commented, "We now more than often say no than yes to those asking for international credit. We have little interest in

The concentration of lending to more developed private clientele European countries is likely to

on Poland. Its large net profit in 1980 was offset by provisions for bad debts, and WestLB is heavily involved with Brazil, another highrisk country, although credits to developing countries account for less than 25 percent of WestLB's overall credit volume.

Banking Law

The willingness to lend is decreasing further under the continual speculation over the eventual form of the revised West German banking law. Provisions are being made by many banks to take into account any extra capital that would be needed if the present ra-tio requirements in West Germany are applied to subsidiaries.

Important as the new law will be, its impact will not be felt for three or even five years. In any case, all foreign subsidiaries of West German banks will be equally affected, a reassuring thought for the Luxembourg tax authorities. No bank is likely to want to

leave on this account alone. Generally, the leaders of West German banking welcome the re-form of a law that is long out of date. It was conceived at the end of the 1950s before any German banks had established themselves abroad, and the nature of trade finance has changed since then; banks are now financing the importer and not the exporter, so the nature of international credit risks has changed. At the time, the DM's importance as an international currency was not foreseen, and now that the Bundesbank is concerned with controlling the money supply and the unit's ex-change rate, the law needs amend-

Another aim has been partially fulfilled — a greater transparency has been obtained by a voluntary agreement for annual audited reports of offshore banking subsidiaries to be sent to the German supervisory authorities.

Mr. Burghagen plays down the threat of the new rules, which have yet to be drafted. He points out that the West German authorities do not intend to undermine the competitiveness of German banks but to prevent unreasonable excesses. Yet the total lending capacity applied to consolidated fig-ures would be reduced by 70 bil-lion to 90 billion DM. It is likely,

Stock Market Showing Vigor

THE LUXEMBOURG stock exchange is tucked away off a busy shopping street in the old part of the town. The office block that houses it is clearly younger than the stock exchange itself, which was founded in 1927 and opened somewhat unfortunately in 1929. Business boomed for only a few months until the Wall Street crash ended any hopes of quick development. And then came

Business really took off in the early 1960s when the Euromarket came to life. Until 1974, it was the only stock market where the Eurobonds could be listed and cornered 99 percent of the market. Then the London stock exchange updated its rules and has managed to get almost one-third of the market. Despite this competition, the Bourse continues to play an important part in ensuring Luxembourg's key role as a financial center.

It is, however, a curiously Luxembourgian entity. It was founded as a private company - although it is a monopoly granted by the state — with the intention of listing the bonds of a few

local companies wishing to raise finance.

But the founders were farsighted — the Bourse can easily adapt its structure to suit market needs by a decision of the directors that has only to be approved by the finance minister. Not only could the holders of shares and bonds issued by Luxembourg companies sell their securities there, but the law that in 1927 created the stock exchange made it attractive for foreign investors as well. The Bourse was granted freedom from turnover tax and stamp duty, and its legal situation was de-

fined by a few vague laws.

The law of 1929 abolished withholding taxes on fixed-interest securities, so withholding companies could then be set up to issue bonds for foreign companies, which are then listed on the Luxembourg stock exchange. Equally important, the stock exchange allows quotations to be listed in the currency of issue. In the early 1960s, the first international bonds listed were issued in European units of account, and Luxembourg was the only place this could be done.

international listing center to the low listing fees, the unbureaucratic procedures for admission and the lack of withholding tax. But an overwhelming majority of the bonds listed are issued by companies registered in the Netherlands Antilles (and at the same address there), where it is even cheaper to set up holding companies.

The stock exchange's manager, Charles Ewert, said that the advantages of listing on the Bourse stem from the low number of administrative staff members (20) and the free "brain trust" that guides it - the commission that meets twice a month, ensuring that the market is working properly with prices and quotations appropriately fixed, that the new bonds are carefully checked and that disputes are settled. The commission consists of 11 members nominated from among Luxembourg's leading bankers by the board of directors; they are not paid for this work.

Although the Bourse is a private company, the financial control rests with the government, which nominates the commissioner. The Bourse itself, however, is a banker's exchange — the bankers act as brokers but most of the trading is carried on outside the confines of the Bourse.

Since 1974, the number of securities listed has doubled to 1.250. "We would never have been able to handle all the business alone [that is, if a great deal did not go through London," Mr. Ewert said, adding that Luxembourg must continue to adjust to changes and develop new business. For example, gold trading was opened in March. "After three months we have even peaked at half the volume handled in the London market," Mr.

The annual report for 1980 shows that, despite an erratic year, the volume of home transactions increased by 25 percent and foreign dealing rose by more than 60 percent. New admissions numbered 171, of which 116 were in U.S. dollars.

- JASPER BECKER

will differentiate between foreign and domestic assets. But, in the meantime, the pessimists are pretending that the ratio of 18 is already being applied.

Smaller Banks

In the long term, therefore, the impact will surely be on some of the smaller German banks who have subsidiaries in the Grand Duchy. With smaller capital resources and generally declining profitabili-ty compared to the boom years of the 1970s, a few might prefer to leave for other offshore banking centers where taxes are easier.

A certain amount of pressure is being exerted on the Luxembourg authorities to improve the general climate. The new secrecy law, the abolition of starup duty on certificates of deposit, and the opening of the gold market are indications that the point has been taken. Is it he suggested, that the new rules enough? Mr. Burghagen thinks

that the Luxembourgers missed their chance about two or three years ago when they might have reduced the tax burden on banks.

The competition from other offshore banking centers is heating up and, despite their distance from West Germany, they are becoming a serious threat. To reduce the taxation on banks would now be po-litical suicide, with the steel industry in poor shape and the second pillar of the Luxembourg economy, Radio-Television Luxembourg, undertaking a major invest-ment in a new satellite. One possibility being seriously examined by the Dresdner Bank is to arrange and manage the loans in Luxembourg, but to register the volume

in Singapore. Taxes in Singapore are 40-per-cent below Luxembourg rates, and some banks are starting to book new business in the Far East. Of course, a major loan cannot easily

be transported or refinanced in Singapore at the moment. It is possible, however, especially for the large commercial banks that alhave established offices there. Profitable as this would be for the banks themselves, it would be a blow to the finances of the Grand Duchy.

For the moment, the West German banks are getting accustomed to the idea that they will be saddled with low-yielding portfolios for a long time and that the decline in the margins on syndicated lend-ing is unlikely to be reversed. Attention is being concentrated on winning private business away from the Swiss as fee income appears to offer the greatest growth prospects. There are also strong hopes that the West German econonly will pull out of its recession as the year draws to a close.

-JASPER RECKER

American Banks Reduce Presence

SOME OF THE leading names in U.S. banking are to be found on Luxembourg's Boulevard Royal. But their contribution to business is, by any standard, dis-

appointing.
The arrival or departure each year of one or another of the banks reflects the half-heartedness with which New York regards their presence here. The U.S. banks were one of the first groups of foreign banks to arrive in the Grand Duchy, and their numbers rose to 16 in 1973; there are only nine now. Despite this drift away from the Grand Duchy, Manufacturers Hanover Trust set up a branch almost a year ago.
The U.S. banks came because at

the end of the 1960s it looked as though Luxembourg and not London would become the center of the Eurodollar market. The banks that stayed have found niches in the finance market in Luxembourg that are not always large but nearly always justifiably profitable. The Chase Manhattan Bank Luxembourg the American Fletcher National Bank and the Bank of Boston have all in turn been forced to reconsider their presence but so far have decided to stay.

Citibank (Luxembourg) was set up in 1972 and, like some of the others, made the mistake of offering too wide a range of services.
"We quickly concluded that we had to specialize," said Gerard Fievet, its director. Now everything we do is related to the Eurobond business. The handling of private accounts, et cetera, was dropped." With an unchanged staff of 14 Citibank managed to make profits of \$1.2 million in 1980, mainly by acting as a paying agency, collecting coupons and in general being used as a depository bank for the London and New

Correspondent Banking

Like most of the U.S. banks, Citibank carries out no treasury operations in Luxembourg. "We nev-er thought is was justified. This can be done better in London or Brussels, Mr. Fievet said. But since Luxembourg is the second-largest center for Eurobonds after London, we have to be here." Mr. Fievet sees in Luxembourg

a potentially profitable business in correspondent banking, and plans to step up contacts with the 111 other banks to drum up more of this business. This commission-oriented business allows local banks without an office in New York to use Citibank's office for dollar transactions.

Correspondent banking is important for the Philadelphia National Bank, but the Bank of Boston has also managed to make a living out of private banking.

Generally, however, the U.S. banks keep up a presence in Lux-embourg less because of its attractions compared to other sites than because of the banks' global strate-

The principal reasons for us coming here at this rather late said Rainer Gebhardt, the managing director of Manufacturers Hanover Bank Luxembourg. "is that we had different priorities to fulfill before considering Luxembourg. We first thought of it six to eight years ago, along with other international banks. But we first

The total rose to 16 in 1973 — and now only nine remain

established ourselves in important commercial as well as financial centers like Milan, Bahrain, Hong Kong and Singapore. When this network had been completed, we again gave Luxembourg serious

Manufacturers Hanover's ambitions are for the moment concentrated on the correspondent bank-ing sector. "We feel that we should show solidarity with those banks which have made a go of it here. With our global orientation and strength, we felt it was proper that we broaden our relationship with those here," Mr. Gebhardt said. The bank has chosen a cautious

approach, starting with a staff of 10. The offices have room to accommodate as many as 30, however. "We want to explore asset management further but it takes time to assemble the clientele, since we do not want to compete with our offices elsewhere in Europe. We have also taken an active role in the interbank deposit market, particularly in relation to our size, in order to demonstrate that we are available for business," Mr. Gebhardt said. The bank has also done some short-term deposit dealing and normal Eurolending.

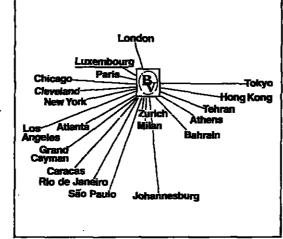
— JASPER BECKER

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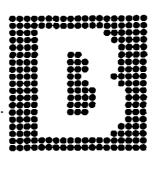
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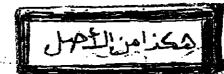
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1 Banks Banks Provide resem Liquidity to Others

ONLY FOUR of the 11 Luxembourg banks of Swiss origin difficult for a bank to base its poliare independent subsidiaries of any importance, but they provide much of the liquidity for the other Luxembourg banks. The situation reflects the fact that, despite the considerable influence Swiss banks wield in the world, there are a limited number of Swiss banks large enough to have a real presence

The only foreign subsidiary of the Banque Populaire Swiss (the Volksbank) is in Luxembourg. It is there to rechannel the money placed in fiduciary accounts at the bank at home. The managing di-rector of the Banque Populaire Suisse (Luxembourg), Hans Egger, says that, although the fiduciary account business is not encouraged, "the increase is remarkable, totally in line with the overall increase of fiduciary business in Switzerland.

He could not say exactly how much fiduciary money is passed on by the parent bank, because any inflow of funds could also come from ordinary bank deposits. The total volume of money in Swiss fiduciary accounts increased 54 per-cent to about 130 billion Swiss francs in 1980 after a rise of 44 percent between 1978 and 1979. The Swiss central bank, the Nationalbank, has for some time been uneasy about the growth of fiduciary accounts and would like to know where the money is going.

The banks are not required to say where the money ends up, only how much there is and whether it was placed by people living inside or outside Switzerland.

Tax Proposed

The attack on the fiduciary business has really come from another direction. The Social Democratic Party has tried to introduce a 5percent withholding tax on the interest paid on fiduciary accounts. The effect of this, the banks said, would be to drive the business outside Switzerland.

The Swiss lower house of parliament voted last week to give detailed consideration to the proposal on fiduciary accounts, which are accounts that belong to non-residents but are managed by a Swiss bank. Earlier this year the upper house had decided against considering the tax proposal.

Although the fiduciary business is lucrative, the banks themselves would rather the money went into savings accounts, where it can be growth in the total balance sheet of certificates of deposit. Despite

cy on money market deposits, which are much more volatile," Mr. Egger said.

Part of the objection of the So-cial Democratic Party stems from the mystery that surrounds the fiduciary depositors. Because they are anonymous, the depositors are apt to be pictured as oil sheikhs or Mafia chiefs. "It is true that people use fiduciary accounts so that no one on the money market knows whose money it is. But the Swiss banks at home and abroad check out each potential client very carefully before they accept his or her money," Mr. Egger said. The mon-ey is placed on the money markets by the bank, but it is the client who bears the risk.

Flexibility

But most Swiss bankers agree that the fiduciary business has grown not because there are more Mafia bosses or oil sheikhs around but because the "high-net-worth individual," as he is called in the business, has become more conscious of big interest rate differentials. If people put their money in three-month or six-month deposits. they have a choice - in fact they must decide where they want the money when the term expires. This flexibility means the returns can be greater although the risks, particularly of exchange rate fluctuations, are higher.

The criticism of the liduciary account business has been aggravated by a development that has affected the Swiss subsidiaries in Luxembourg, On Dec. 31, 1980, consolidated accounting was intro-duced, so the assets of foreign subsidiaries are added to the assets of the parent bank. The parent banks then have to have sufficient equity to match the solvency ratios in Switzerland. While the Luxembourg ratio is 3 percent, it ranges from 4 percent to 20 percent in Switzerland, depending on the nature of the risk.

The impact has not been immediate on the Luxembourg subsidiaries because policy changes are in the hands of the parent bank, and as the move had been expected, the changes have been gradual.

The profits of the Swiss subsidiaries continue to be high. The net profit of the Credit Suisse subsidiary, the smaller of the big three Swiss banks, was 43.4 million Luxembourg trancs last year. The

-TIME OFF Cuisine: The Best of Two Worlds

By Mark J. Kurlansky

THE PEOPLE of Luxembourg are fond of saying that they take the best from the French and the Germans. In food, they say this means German quantity and French

The city of Luxembourg as well as the country is rich in quality restaurants. While the pastry shops with their elaborate cream tortes and marzipan show a German influence, the restaurants unquestionably owe a great debt to France. Not only is the cuisine predominantly French in technique but the cooks themselves are mostly French.

The Breson chef and owner of the presti-gious Restaurant Saint Michel. Pierrick Guillou, even complains that it is hard to find local cooks. "The Luxembourgeois' don't seem to want to work in a kitchen," he conjectured. Nevertheless, eating is one of the best pastimes in the Grand Duchy.

As in Belgium, local products and tastes find their way into the great restaurants, and the local dishes, considered too heavy and crude, generally stay in the homes and cafes. For example, the most famous Luxembourg dish is a sort of smoked pork and beans called *judd mat gardebo nen*. Curing pork is a local specialty and the smoked ham from the Ardennes ranks among the best in the world. Another specialty is suckling pig in aspic.

Chefs eagerly use the river produce such as trout and crayfish but shy away from traditional dishes like the fried platter that is a specialty of the Moselle Valley.

Among the chefs who are particularly adept at creating a cuisine from the local products is a native, Jean-Pierre Boden, who at 55 has been cooking for Au Gourmet in the center of the city for 35 years. This restaurant is in many respects French, and the influence appears in such dishes as the spectacularly prepared foie gras.

Many of the dishes have roots in the local

fare such as the truite farcie Grande-Duchesse (trout stuffed with minced mushrooms in a wine cream sauce). The good dry, fruity white wines of the Luxembourg Moselle are

was only moderate and at the end

of 1980 reached 52.1 billion Lux-

embourg francs, against 50.7 bil-

lion in 1979. Most of the lending by the Swiss banks is interbank

business because the majority pre-

fer to leave commercial and politi-

cal lending to the parent banks.

Nevertheless, the Swiss banks are

net lenders to the Luxembourg

Money Market

business also means that the banks

have a relatively large part of their

assets in money market instru-

ments, and a notable innovation in

the last year has been the issuing

The importance of the fiduciary

market.



THE HOME OF THE HAM — A farming village in the Luxembourg Ardennes. a region that produces some of the best smoked ham in the world.

the base of many of Mr. Boden's sauces. Crayfish are served in a native Riesling sauce with shallots and tarragon finished in butter. As in most Luxembourg restaurants, the wine list has an ample local selection.

At Saint Michel, in the old part of town, the menu's emphasis on seafood reflects Mr. Guillou's Breton origins more than his current landlocked location. He calls his cuisine normelle, then laughs and adds that the description is meaningless. A great deal of the menu is devoted to exploring interesting ap-proaches to seafood, such as oysters lighty heated in walnut oil or sole with goose liver.

Pastry Wagon

The pastry wagon shimmers with some of the magic that is hoped for. Here the local cream with its natural sweetness plays a ma-jor role in the assortment of charlottes, ousses and havarois.

Around a narrow, turning street from Restaurant Saint Michel, in a wood-beamed au-berge dating to the 16th century, is Um Bock, a restaurant owned by a chef from

the involvement of the Credit provisions had been made for the

to be made.

securities portfolio. The bank in-

vested its equity in Swiss franc

bonds, which went down due to

the increase in capital market

rates. Profits in 1980 were higher,

therefore, as fewer provisions had

keep to interbank loans out of

deference to their parent banks.

Few loans are made to domestic

clients in Switzerland, as this

would mean "cutting into our own flesh," as one banker put it. The

Credit Suisse tries to specialize in

short-term lending to large West

German corporate clients, but the Union de Banques Suisses is per-

haps more representative, with 85

The Swiss banks also tend to

Suisse in CDs, its managing direc-

slow because of the volatile and

The Banque Populaire, for ex-

ample, has cut back on securities,

dropping from 10 percent to about

5 percent of assets. The bank is in

other ways an anomaly among the

four Swiss banks. Its balance sheet

total increased by 50 percent in 1979 but grew by only 0.3 percent in 1980. The Banque Populaire de-

liberately avoided growth to im-

prove the structure of the balance

sheet, as the net profit had been

bad the year before because heavy

diffused interest-rate situation.

Reinhard Schmoelz, thinks

the development has been

tor.

Burgundy, Bernard Paquet, whose restless nature has led him even further from the local cuisine.

Mr. Paquet has cooked all over the world, including on board the liner France (now called the Norway). Two years ago, he came to Luxembourg, where he became fascinated with the cooking of the chef at the Soviet Embassy and decided to open a Russian res-

Such fare as salmon in a mousseline sauce with caviar, or marinated salmon filets with fennel served with spicy blinis, or delicate croquettes de harbue in a cream sauce are arguably Russian, even with the Russian folksngers serenading the diner.

An extraordinary dish called secret du bouc, a warmed goat cheese on toast with a cold cream and chive sauce, is of French origin. But if the authenticity is questionable gastronomy is not and the cuisine is perfect with Luxembourg Moselles. It would have been interesting to have visited Mr. Pa-quet when he worked in Egypt, where he says he made Middle Eastern food.

percent of its loan portfolio in in-

terbank lending.
The reputation of the Swiss banks for asset management has attracted more private individuals to Luxembourg, and the Swiss see this as a blossoming business. De-posits have increased on average by 25 percent partly because it is slightly cheaper in Luxembourg than in Zurich or London and because of the new law on banking secrecy, which eliminates Zurich's monopoly on secrecy.

Mr. Schmoelz also believes that the private investor is becoming more canny and not only wants his money in different banks but also in different countries.

— JASPER BECKER

CEDEL had originally been favored by the banking world be-

Bond Clearinghouse Tops Expectations

CLIGHTLY MORE than 10 years after it was set up in Luxembourg, CEDEL, the computerized international clearinghouse for Eurobonds, is flourishing - a witness both to the extraordinary growth of the Eurobond market and to the leading role that Luxembourg has played in the Euromarket's development.

"Even I did not expect, as founding — and present — chair-man, that it would meet with such success," Edmond Israel said of CEDEL.

Last year, CEDEL (which stands for Centre de Livraison des valeurs mobilieres) moved into new premises and broke records. The turnover figures for 1980 shot to \$80.25 billion against \$54.66 billion the year before. The participatory banks and brokerage houses now number more than 1,000 from 49 countries. Under its new managing director, Joe Galaszka, it cleared 3,500 issues in 1980 and held in safekeeping deposits worth more than \$27 billion. "When CEDEL started its oper-

ations in January, 1971, nobody could have foreseen that this multibanking corporation, active in the worldwide Eurobond market, would experience the rather extraordinary growth recorded by the figures published 10 years later." Mr. Israel said in the last annual report. CEDEL has managed because of this growth to reduce its fees eight times.

CEDEL fills a clear need in the international banking community for a neutral and fast clearing operation. Its efficiency has been boosted by an electronic bridge agreement with its rival Euro-clear. set up a few years earlier by the Morgan Guaranty Trust. Discussions are continuing on streamlin-ing the fees charged by each system for bridge transactions, but the link has already resulted in enormous savings in interest losses. The competition between the two computers and their compa-

nies has heated up, however.
CEDEL has had to make new investments to keep hold of the lead it established a few years ago. The new premises house a computer whose capacity has been doubled, and CEDEL has become the first clearinghouse for state savings and gold transactions.

Despite these efforts, a lot of customers are turning to Euro-

cause of its neutrality (no bank can hold more than 0.5 percent of its shares). As a cooperative, it was free from the suspicions that the users of Euro-clear had harbored about Morgan Guaranty. It was feared that the U.S. bank would use the information passing through its computer for its own advantage.

It was then decided to turn Euro-clear into a separate company whose shares were held by other banks. Cosmetic though this move might be, it has served its purpose. Euro-clear now has douthe business handled by CEDEL. Charles Ewert, manager of the Luxembourg stock ex-change, attributes this to the marketing skills of the Americans. It is also perhaps an indication that. despite the experience in international banking that the Luxembourgers have gained during the last 20 years, they have yet to match the flair and influence of bankers in New York.

A possible example is Eurex, a computer-assisted trading system for Eurobonds that officially went into receivership in January. Its chairman, Remy Kremer, the man-aging director of the Banque Gen-erale du Luxembourg, cues poor marketing as one of the reasons for Eurex s failure.

The aim of Eurex was to rationalize trading in the vast secondary market for trading bonds. International bonds are now traded across-the-counter on a transcontinental scale, and it was designed to help both the dealers and marketmakers. Similar to the over-thecounter-market systems in the United States, it could present the best possible price to participants placing purchase or sale orders.

Eurex, created three years ago. was ahead of its time. Mr. Kremer now believes. "The dealers were not ready for it. A dealer is like a prima donna, and prides himself on his feel for the market. The introduction of a computer into what is felt to be a business carried on on the basis of personal relationships was psychologically unacceptable. The dealers felt that they would become appendages to a computer. This was in fact not

Mr. Kremer believes that, as the secondary market for bonds continues to grow in importance and size, there will be a shift of opinion in favor of computerized dealing.

- JASPER BECKER

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PARIS

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Albert Dondelinger Chairman of the Executive Board, BIL

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-Banking and Finance in LUXEMBOURG——

European Investment Bank: Big Low-Risk Lender

ESS A BANK and more a Community institution" was the way a senior official of the European Economic Community chose to describe the European Investment Bank, which, from new offices on the Kirchberg Plateau overlooking the capital of Luxembourg, dispenses funds for projects inside and outside the

It is a bank nevertheless. Ranking second only to the World Bank among supranational lending agencies, the EIB borrows money on the international capital markets and makes loans for public and private projects. The bank's lending in the Community amounted to almost 3 billion European units of account (\$3.9 billion) in 1980. Long-term financing is given to projects that follow general EEC policy guidelines in areas such as regional development and industrial modernization

within the Community. The ElB was set up together with the other EEC institutions by the 1958 Treaty of Rome. It is a virtually autonomous in-stitution, with a board of governors com-posed of the finance ministers from each

of the EEC countries. The bank carries out a wide range of lending activities and has particularly close links with the European Commission's Credits and Investments Department, which is also in Luxembourg. This department has money to lend, too, both from the Community budget and through the so-called New Community Instrument (NCI), which was created in 1979 to allow

the Commission to borrow up to 1 billion European units of account on the commercial money markets for lending toward intrastructure and energy-related projects. The Commission itself decides on the eligibility of individual schemes for-NCI financing, but the EIB usually disburses the loans, acting as the Commission's agent

ETB Financing

Capital for the EIB is subscribed by the EEC members, with the bulk of the money coming from West Germany, France, Britain and Italy, The total subscribed capital stood at 7.2 billion units of account in January. But the largest portion of the bank's available financing comes from borrowings — principally public and private bond issues on national capital markets inside and outside the Community and also on the international capital market. Since 1961, the EIB has raised more than 13 billion units of account through the issue of Eurobonds and foreign bonds and through syndicated credits. Borrowings in 1980 alone reached almost 2.5 billion units of account.

As a lending agency whose activities are aligned to EEC policy objectives, the EIB is not keen to channel finance into highrisk areas. "We concentrate on economically sound investment schemes," said Karl Georg Schmidt, one of the EIB's advisers in Luxembourg. "And in order to obtain the necessary finance, the bank needs a good credit standing on international capital markets.'

Two areas are high on the EIB's priority list: energy-related projects, and schemes that conserve or create employment. An EIB spokesman stated that energy projects supported by the EIB in the last four years alone should eventually provide extra resources or result in fuel economies that together should amount to an annual reduction in Community oil imports of about 50 million tons — about 12 percent of the EEC's current annual oil imports.

With almost 8.5 million unemployed in the EEC, employment conservation and creation is uppermost in the minds of those who make the decisions about EIB finance. Mr. Schmidt said that the employment factor was a major criterion in financing decisions. He said that roughly half the Community's financing for investment was directed toward particular projects because of their likely beneficial effects in employment.

The unemployment problem has also been one reason that, in recent years, the EIB has directed more of its attention toward small- and medium-size businesses. The labor-intensive nature of much of the activity carried out in the small-business sector is an obvious reason for granting EIB loans to smaller projects.

The sheer size and distance of the EIB may in the past have frightened away some of its potential customers, and a scheme worked out in 1979 is intended to close this gap. The bank issues what are

known as global loans to financial institutions in each EEC country, which then extend sub-loans for small- and mediumscale ventures. The EIB still appraises each individual project before giving the go-ahead for the second loan.

Although the EIB is a nonprofit organi-

zation, it operates within the normal commercial banking system and its interest rates follow movements on the capital markets, where it obtains most of its funds. There are schemes, however, that allow borrowers to benefit from interest rate subsidies, granted either by national authorities or paid from the Community budget. Selected EIB loans may be eligible for interest subsidies of 3 percent from the EIB's own resources for projects in countries that participate fully in the European Monetary System. Borrowers in Ireland and Italy have taken particular advantage

The European Investment Bank has seen its role in the Community grow considerably since it was set up 23 years ago. No other lending agency, apart from the World Bank, can match the EIB's borrowing and lending levels. Total EIB loans last year amounted to almost 3.5 billion units of account, against slightly more than 17 billion for the period of 1958 to 1980. But, despite the high-powered image that the figures tend to give the bank, EIB officials see the development of its links with small business as one of the most im-

- CRAIG ANDERSON

Latecomers, but Gaining

THERE WILL BE 113 banks in Luxembourg when the Isututo di Torino opeas. All that is needed is the authorization from the Italian authorities, which, in the best Italian banking traditions, can be a lengthy business. Mario Giocopini, the assistant director of the Luxembourg Italian Bank, is sure that more Italian banks are on

the way. His own bank is giving way to a gradual appreciation by the Italrans of Luxembourg's possibilities. Its name is being changed to the Banco di Napoli, which has bought out the other three Italian shareholders, Istituto Bancario San Paolo di Torino, Banco di Sicilia and Monte dei Paschi de Siena. The four had previously shared offices in London, Frankfurt and Paris, but each of these has become a fully owned subsidiary of one of the four.

The Italian banks are relative lateromers to the Grand Duchy with the first arriving in 1974.

They now total five (the newest bank will make that six): the Luxembourg Italian Bank, the Banco di Santo Spirito, Banco di Roma, Lavoro Bank International and the Societe Europeenne de Banque, owned by the Banca Commerciale Italiana In terms of balance sheet size, the Italians are in the bottom half of the list. The Societe Europeenne de Banque had a balance sheet of 13.155 billion Luxem-

The hesitancy of the Italian banks to come to Luxembourg is partly explained by the conservative and inflexible nature of the Italian banking system and the tight control excercised by the central bank in

bourg francs in 1980, and the smallest bank, Banco di Santo Spirito, had a total of 1.92 billion.

The hesitancy of the Italian banks to come to Luxembourg is partly explained by the conserva-tive and inflexible nature of the Italian banking system and the tight control exercised by the central bank in Rome. Another reason, according to Mr. Giocopini, is that until recently there existed no

double taxation agreement between Italy and Luxembourg. This has been negotiated, and the Italian banks will be encouraged to come in greater numbers with the blessing of the central bank.

Banco di Napoli

The Banco di Napoli, one of the oldest and largest Italian banks with 500 branches in Italy, believes that being on its own in the Grand Duchy will result in higher efficiency and higher profits. With a staff of about 30, the consortium managed to make a profit of 600 million Luxembourg francs last year. But with four banks in charge, decisions were hard to make.

Most of the business of the Italian Luxembourg Bank was with Italian corporate clients, exporting in the European Economic Com-

The bank is currently not allowed to accept deposits from private individuals, at least not residents in Italy. Although the Italians are as keen as the French to take their money abroad, it is forbidden. In any case, Italians can smuggle their assets across the border to Switzerland, since it is much

The only private banking that the Italians do is for the civil servants working at EEC institutions

Luxembourgeoise de la Dresdner

Bank, thinks they could do more.

He points out that there is still no

law to oblige exernal auditors to

examine the banks' balance sheets

or to encourage highly qualified

staff to come to Luxembourg. Tax

incentives could be given. In addition, he said, "The authorities in

Luxembourg should do more to sell Luxembourg abroad. In some

places I go, they confuse Luxem-bourg with the name of a ciga-

in Luxembourg and Brussels. - JASPER BECKER

Running Hard and Maintaining Position in the Offshore Banking Race

of this system.

(Continued from Page 7S)

of Luxembourg are its central position in Europe, its good communications and infrastructure, the social and economic stability, the multilingual work force, and the fact that it houses many European Economic Community institutions, including the European Investment Bank.

These are undoubtedly important assets. But, as a Swedish banker said. "The banks are all here because they find something they cannot find at home. But these are not always the same things. Luxembourg is no tax haven; the banks pay as much corporate tax. Luxembourg rates for DM rollas they do anywhere else. You over loans are increasingly used as have to look at the situation in the home countries of the banks to see

The foreign banks' move to Luxembourg took place in waves. The U.S. banks were the first when they arrived in the 1960s, prompted by the Interest Equalization

they have dropped to nine. London eventually proved more attractive, and these banks are now mostly preoccupied with portfolio ment, correspondent banking and servicing of Eurobonds. Yet it is significant that, because of the sheer number of banks, Luxembourg has become big enough for Manufacturers Hanover to ig-nore the disillusionment of its

The West German banks came next, and with 29 of them, they have made Luxembourg the capital of the Deutsche mark bond. reference (Luxibor) in Frankfurt and elsewhere. About 48 percent of the total bank liabilities are in marks. The last 18 months have been hard on some of the larger West German banks, with the Commerzbank and Deutsche Bank showing no profits in 1980. In ad-

new West German banking law is leading to a consolidation of balance sheets of foreign subsidiaries that could lead to further profit

The West Germans are drawn to Luxembourg by the historical and linguistic links and the lack of minimum reserve requirements. But Ulrich Damm, managing director of the Commerzbank International, stresses that they merely competitors and set up shop last act as an extended arm of the parent company to book business arranged at home.

Broadening Operations

The most recent group to arrive is the Nordic banks, With a greater degree of independence than the only fully owned foreign subsidiaries of the parent banks. The tight banks at home and the need to finance oil import deficits with Eu-Tax From a peak of 16 in 1973, dition, there is the threat that the embourg with the consent of the

Swiss banker said.

nancing of Scandinavian compa-

Germans, they are also often the monetary policies of the central roloans mean that they are in Lux-

central banks. Perhaps the most dynamic of all the banks, they are broadening their operations from financing domestic industries to seeking international clients. Restrictions are being eased at home for some banks to allow them to syndicate foreign currency loans there and handle the export fi-

The Swiss banks are limited in numbers but are a force as providers of liquidity. They, too, have been under pressure with the introduction of consolidated balance sheets. But the increase of funds channeled through fiduciary accounts has been "phenomenal," a

The other banks include a prowing number of Italians (five, plus one soon to be set up), 13 joint venture banks, four Japanese banks, and a fairly stable and established group of Belgium, French and domestic banks.

The Banking Commission, set

up in 1945, has followed a policy of offsetting the risks inherent in the elaborate structure of the Euromarket by accepting only the most highly rated and well-known banks. The only rules are that a bank's capital must not fall below 3 percent of total borrowing, while assets equivalent to 30 percent of liabilities must be available within 30 days. Newcomers must also be repared to come with a relatively gh amount of starting capital and to submit balance sheet statistics and forward exchange positions to the banking commissioner

Policy Pays Off

The policy has paid off - so far there have been no embarrassing bankruptcies in Luxembourg. The real threats have come from outside. The steady erosion of spreads on international lending and the need to offset the loss in value of long-term bonds led to a drop in earnings of 5 percent last year, but

at one point a drop of 25 percent had been feared. The growth in total bank assets has slowed, as has the number of new banks. At the same time. New York is planning to set up a free banking zone, which may take a share of the Enromarkets not only from the Bahamas or the Netherlands Antilles but from Luxembourg as well.

Membership in the EEC, which has done much to enhance Luxembourg's prestige, may also prove a danger. Progress is slow but the EEC Commission aims to harmonize the financial institutions and markets within the Community and this may destroy some of the legal freedoms that have beloed to make Luxembourg more important than Paris or Amsterdam.

The benefits that the banks have brought to Luxembourg cannot be underestimated. Directly or indirectly, the banks now provide 20 percent of the state's income. Since 1945, the banking sector has created more than 7,000 jobs, but the working in banks has declined. Mr. Muehlen, the secretary of

state for finance, admits that there is no room for complacency if Luxembourg is to develop into a finance center that transcends the limitations of the Euromarket.

The banks that are in Luxembourg still bemoan the high taxes, the paucity of double taxation agreements, rising overheads and the lack of a foreign exchange market. Some of the larger German banks are now considering booking some of their business in Singapore, where taxes are much low-

Environment Changes

In the current crisis, the Luxembourgers are adamant that there is no prospect of lower taxes for banks. Efforts are thus concentrated on environmental improvements that cost little or nothing. Volker Burghagen, the manag-ing director of the Compagnie

"After the boom years, Luxembourg is now going through a peri-od of consolidation," said Edmond Israel director at Luxembourg's oldest bank, Banque Internationale a Luxembourg.

But is a policy of consolidation

enough? To rely so heavily on the presence of foreign banks — which may decide to leave if legislation or controls at home are changed --is too risky, unless at the same time Luxembourg manages to develop a momentum of its own.

stric

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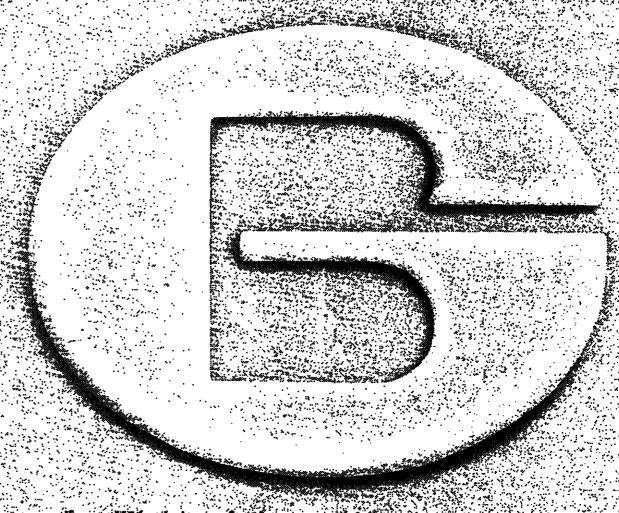
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TIME OFF

White Wines Of Quality. Little Fame

DORDERS ARE a curious thing. The Moselle River wriggles through a lush valley. Both banks have sloped and terraced vineyards running up small hills with old, tidy villages facing one another across the river. On both sides, the same Riesling and Pinot grapes are grown. But one side is West Germany and the other Luxembourg — and a German Moselle and a Luxembourg wine have little in common except the varietal name on the

Some Luxembourg wine makers claim that their bank gets slightly better sun expo-sure than the German side. But the real difference is in the techniques and fermentation. The Germans stop fermentation while there is still a significant quantity of the grape sugar remaining, which makes a much sweeter wine. Luxembourg wine is almost always dry, often fruity — little-known and under-appreciated.

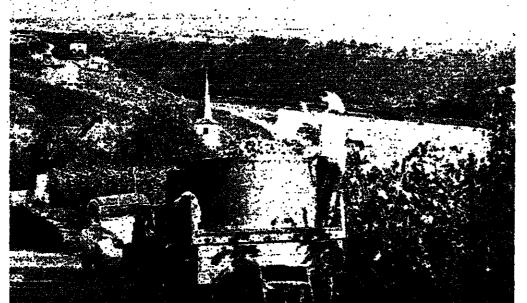
About half of the small production is sold in Luxembourg and most of the rest in Belgium. Chefs such as Pierre Wynants of Comme Chez Soi in Brussels, considered by many to be one of the world's great chefs, have a high opinion of Luxembourg wines and include them in their cellars.

The yearly production is sold out with most of the rest of the world never tasting it. It is hard to find a Luxembourg bottle anywhere in France. "It is very difficult to sell wine to the French," said Hubert Clasen of Bernard-Massard, an independent Moselle winery.

White Wine

The Luxembourg production, with the exception of a small quantity of Pinot Noir rose, is white. Almost half of the grapes grown are Rivaner, a hybrid of Riesling and Sylvaner that is favored for its dependable yield and quality. It makes a pleasant light wine when

The second biggest production is Elbling, a dry light wine that is preferred by the locals.



Grape harvest in the Grand Duchy's Moselle wine district. This year's crop shows promise.

the bottle called the marque na-

tionale. About 40 percent of the

production carries this label.

Such wine is termed vin de qual-

ite. A small percentage of the

vin de qualite is designated vin

classe, premier cru or grand pre-

Cooperatives

minded vintners have resisted

the idea of cooperatives, finan-

cial pressures have caused a

grouping process so that today

only 8 percent of the produc-tion comes from independent

vintners, and one cooperative,

Vinsmoselle, controls three-

quarters of the national pro-

The independent vintners do

not hide their irritation about

the conglomerate process. "The

cooperatives like to pretend that they are the only Luxem-

Although the independent-

mier cru (the best).

Luxembourg wine is almost always dry, often fruity - and little-known and under-appreciated. The yearly production is sold out with most of the rest of the world never tasting it.

There is also a fruity but very dry Auxerrois that seems to vary greatly from year to year, some very good Pinot Blanc, a Riesling of impressive charac-ter, and a small quantity of Pinot Gris and Traminer.

There is also a growing production of sparkling wine made in the natural refermentation process known as the Champagne method. Originally, Luxembourg Riesling and Pinot were used. Today there is no longer a surplus of still wine, partly because of some bad years, and much of the sparkling wine is made from French and Italian imports.

The quality and labeling of the wine is controlled by the Luxembourg government. Wines that meet government standards and whose labeling authenticity is guaranteed by law have a label on the neck of

Clasen said.

been, hard for these vintners in some of the most northerly vineyards of quality in the world. Spring temperatures that suddenly drop below freezing have caused disasters in many years. In 1949, the crop was destroyed. The past three springs have had too much rain and lacked sun. The total production for the three years was about 15 million liters, which used to be considered an average single year. The last really good year was 1976.

bourg wine makers," Mr.

But times are and have often

This year shows promise in spite of some early damage. This month, when the flowers come out, is the critical time, and the strong sun and gentle

night rains seem ideal.

Most Luxembourg wines should be aged between three and five years. But if you go to the Moselle in November, you might get a chance to taste a local delicacy called Fiessenwiesen, the cloudy, monthold wine that is available for about three weeks. The Moselle people drink it while munching nuts and, according to one local connoisseur, end up with tre-

mendous hangovers.
— MARK J. KURLANSKY

Scandinavian Banks Flourishing

IN CONTRAST to the big West German banks in the Grand Duchy, the Scandinavian banks have sailed through the last 18 months with flourishing profits

and balance sheets. The 12 Nordic banks represented either as fully independent subsidiaries or as partners in consortia form the second-largest group of foreign banks. All of them rank below the main West German and Swiss banks in terms of balance sheet size, but together they exert a considerable influence on the mar-

They have distinguished them-selves by the speed with which they have settled down and the confidence with which they expect their operations to continue to expand. Den Danske Bank International S.A., which opened in August. 1977. is the largest Nordic bank and holds 22d place among the 112 banks in Luxembourg. with a balance sheet total of 36.6 billion Luxembourg francs. The average age of the other banks is also about four years, but the Norwegian Christiania Bank was in Luxembourg in 1970, followed by the Den norske Creditbank (Luxembourg) S.A. in 1974 and the Danish. Finnish and Swedish banks in that order.

For most of the Scandinavian banks, the decision to come to Luxembourg was a step in the dark. Although many already had interests in London banks, most Scandinavian banks are, in com-parison to the West German or British, too small to interest themselves in setting up more than one or two subsidiaries abroad. Because of inexperience in offshore banking the banks waited for a few early settlers to justify their moves. With the arrival last autumn of the Gotabanken, the roll call of major Scandinavian banks

New Marketing Team

Those that have been in Luxernbourg a few years, like the Den norske Creditbank (DNC), are already doing well enough to start building new premises or hire additional staff. This June, the DNC brought in a new marketing team. raising the staff to 35, which will be housed in a new 2,500-squaremeter building.

While it is true that the Scandinavian banks came for much the same reasons, they should not be mistaken for a uniform block.

"Our activity has to be seen in the light of the Norwegian economy and its development," said Ole Aamodt, the new managing direc-

tor of Den norske Creditbank. as monetary control has become citizens, made a welcome addition to the banks funds.

We are becoming more outward-looking in Norway, due to the bal
Sweden, and as higher liquidity ra
The total assets of the Skandiance of payments surplus. Other Scandinavian countries, like Sweden, have become heavy capital importers, so their banks may have found growing markets in their homes countries."

Why Luxembourg?

Aside from the Norwegians, the others were encouraged to go to Luxembourg by their central banks to raise financing on the Eu-romarket for the substantial balance of payments deficits run by the Nordic countries after the oil price rises. With its newly discovered oil and gas reserves. Norway

is in a different position. But why Luxembourg? The central banks' policy of imposing tight restrictions on local institutions wishing to provide international financing to local companies meant that the banks going abroad had to follow their customers. The Danish banks that have gone to the Cayman Islands have done well there, but the islands are far away. For the larger Scandinavian banks already established in London, Zurich and Paris. Luxembourg seemed the natural outlet for perhaps their first wholly owned subsidiary. And the easygoing capital ratios in the Grand Duchy suited the needs of medium-size banks

better than those in London. The Luxembourg authorities emphasize that any bank wishing to settle must not be just a booking office for domestic business, but operate on an international level.

Norwegian Situation

The Swedish central bank, the Riksbank, extracted a commitment from Swedish banks applying to establish themselves abroad to keep 70 percent of their business Swedish-related. But the world being what it is, there is in fact no conflict of interest. As Bengt Senneby, managing director of the Skandinivska Enskilda Banken (Luxembourg) S.A., said, "The promise can be widely interpreted. as credit can be given to Swedish subsidiaries abroad. Swedish exporters and importers, and for financing the needs of importing countries. We are following the Riksbank's wishes, but it is not allowed to control us or look at our

To some extent, central banks can put pressure on foreign subsid-iaries through the head office, but the banks are in Luxembourg with the central banks' blessing. This has become even warmer recently tios have been forced on many.

The Norwegians face a different situation. "We are changing active-ly from concentrating on funding the Eurocurrency needs of our customers in Norway — which over the past year can be covered at home - to also become an international financing vehicle of the DNC group," Mr. Aamodt said. "But the group, in international terms, with total assets of \$5.5 bil-

lion, is still not of any major size." Fearful of overheating the econ-omy, the Norwegian central bank decided to encourage the export of capital by permitting, under supervision, assets in foreign currencies to be granted to residents and nonresidents alike. So far, however, most of the revenue from oil has been absorbed into the domestic

Other Directions

Den norske Creditbank has taken the initiative to develop business in other directions, such as foreign currency trading - in Scandinavian currencies only and loans to energy-related projects. During 1980, loans to customers. Notwegian and otherwise, increased by 28.6 percent to reach 13.83 billion Luxembourg fr. acs. Of this, 65 percent went to companies involved in shipping shipyards and offshore petroleum ex ploration.

The currency market will grow in Luxembourg, Mr. Aamodt be-lieves. Much of it is traded among the Scandinavian banks whose cus-tomers are themselves heavily engaged in common business and so need to cover sales and purchases in these currencies. It is, in fact, an extension of the forward markets at home used to cover exchange risks of exporters and importers outside Scandinavia.

Whatever the differences among the business pursued by the Nordic banks, all made at least pleasing profits in 1980 by most standards. Den norske Creditbank showed a net profit of 118 million Luxembourg francs, 12.4 percent higher than the year before. In its sixth fiscal year, total assets grew by 60.7 percent to 28.028 billion Luxembourg francs. Last December, the bank raised a \$20-million subordinated loan to strengthen its capital base so that equity capital amounted to 1.885 billion Luxembourg francs at the end of 1980. Like most of the Nordic banks, deposits from Scandinavians abroad. including companies and private

The total assets of the Skandinivska Enskilda Banken (Luxembourg) increased by 28 percent to 23.172 billion Luxembourg francs. a slower rate than the 46-percent rise of the 1978-1979 year. Gross profit was up by 3 percent, again a little disappointing compared to what had been hoped for at the be-

ginning of the year.

Mr. Senneby cited the low margins on syndicated loans as a reason. The number of syndicated credits to developing countries dropped, the supply of money in-creased, but the banks had become more cautious. So everyone was throwing credits at OECD [Organization for Economic Cooperation and Development] countries producing margins that were very low.

Banks preferred to give credits to
Finland or a Swedish company
than to Brazil." Nonetheless, Mr.
Senneby's bank managed to increase its credit portfolio by 52
percent during 1980.

The Svenska Handelsbanken
SA (Luxemburg) another Swed-

S.A. (Luxembourg), another Swedish bank, also registered a slowdown in the rate of expansion. Total assets increased by 22 percent to 20.498 billion Luxembourg francs, while the increase the year before was 66 percent, Meanwhile, in Sweden, the parent bank had a poor year, with a drop of 13 percent in profits. A similar report could be made about the other

Nordic banks in the Grand Duchy. The Swedish state-owned consmercial bank, Privatbanken, came out of a recent survey 10 places ahead of the next Nordic bank as lead manager in syndicated Euroloans. The trend is for the Nordic banks to move from bulk lending to domestic clients, to competing for other international clients. This tendency is likely to be strengthened if foreign or domestic banks are allowed to handle more of the

home-based custom. Mr. Senneby believes that 1981 will also prove a year of slower growth for the Nordic banks, but there are few indications that the banks are going to consider dealing in bonds or other securities. The profits come from the credit portfolio and foreign exchange transactions," he said. As for competition among the Nordic banks, lead managers will always call their friends in the other Nordic banks to see if they want to join before trying anyone else. "Here, we are more like colleagues than competitors," Mr. Senneby said.

- JASPER BECKER

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Government Priority: Diversity and Improvement in Financial Activities

THE GOVERNMENT is mak- not going to create special tax ad- could easily have done here if there I ing it a priority to diversify and improve Luxembourg's financial activities. "We no longer expect to expand at the rate we have done in the past, so we are now concentrating on consolidating our gains." said Ernest Muehlen, the secretary of state for finance.

Pierre Werner, who has been premier since July, 1979, and who is a former premier, made clear at the beginning what his government's intentions were, and the infrastructure laws and institutions are being overhauled to match the demands being placed on them.

"It is really a case of trying to remove the disadvantages which Luxembourg has and other financial centers do not have. We are business goes to London which we mean getting the worse of both

vantages for the banks — we can-not afford it," Mr. Muehlen said. ies." were enough double taxation treat-

Worthwhile Asset

Schmoelz, the managing director tion system is of German-Austrian of Credit Suisse (Luxembourg), origin. There are historical reasons said: "A lot of South American for this hybrid, but it tends to

Priority has been given to the ne-gotiations of double taxation treat-pear satisfied that the authorities ies. This is, as Mr. Muehlen ad- are moving as quickly as they can mits, a laborious chore and a diffi- on these agreements. A treaty was cult one for a small country like signed with Brazil this year, adding Luxembourg because many counto those with Denmark, Finland, tries - in South America, for ex- Italy, Sweden, Norway and ample - have little incentive to Morocco. Negotiations are under negotiate these treaties with Lux- way with Spain, South Korea, Greece, Switzerland and Canada.

Another problem is the reform of the banking laws. The legal They are nevertheless a framework is based on the French worthwhile asset. Reinbard Napoleonic Code, while the taxa-

Ewert, the manager of the stock exchange, the German laws have still to be translated into proper

There are a number of legal reforms taking place this year. The EEC Banking Directive of December, 1977, is being implemented, bringing the Grand Duchy's laws in line with those of the rest of the European Economic Community on such things as banking secrecy, the right of establishment, control of group balance sheets and credit risks, and the calculation of the ratio between a bank's own resources

Banking Secrecy

and its assets.

Much importance is attributed to the legal definition of banking secrecy, which had been observed but without sanctions for violations. The new law will give bankers the same obligations as doctors or lawyers. For the private inves-tor, it gives Luxembourg some of the appeal of Switzerland.

A second piece of legislation that should be adopted by the end of the year concerns investment funds, which at present exist in a judicial vacuum. The 80 funds will be put under the supervision of the banking commissioner and given the same tax status as holding

As far as diversification is concerned, the authorities have taken measures that have met with the full approval of the banks. The value-added tax on gold transactions was abolished in 1979 after the West German and Swiss, at the height of the gold fever, applied the VAT to legal tender. Previously, coms were free of this tax. Only gold and for including the transaction. gold used for industrial purposes is now taxed in Luxembourg.

A law is also being drafted per-

mitting investors to submit certifi-cates of gold to banks anonymously to facilitate transactions. Arrangements have also been made to store the gold physically in Lux-

Stamp Duty

Another move to help the banks develop their portfolio management services was the removal of stamp duty on certificates of deposits, although this has yet to really take off.

The banks themselves are trying to press for tax cuts. "We have no intention of becoming a tax haven," said Jean-Nicolas Schaus, the No. 2 man in the Banking Commission after Commissioner Pierre Jaans. But in response to criticism about the lack of double taxation treaties, the government in 1978 decided to give tax relief first of 7.5 percent and then last August of 15 percent of corporate income tax on foreign revenue.

Since February of last year, a group of lawyers, bankers and officials has been meeting to clear up other legal problems or inadequapromoting education and training for banking careers, and there are hopes that a structured and specialized course will become available at the School of Business and

Tax Income

Administration.

The government also promised to improve the parabanking sector environment to attract insurance companies, stockbrokers and the like. So far, there are 14 credit insututions, five stockbrokers, live leasing and facturing companies, and six firms involved in portfolio management. Mr. Muchlen is optimistic about attracting international investment and re-investment firms, and points to the decision by the West of England Ship-owners and Mutual Protection and Indemnity Association to come to

The drive to broaden Luxembourg's base as a finance center on loans have been pared to the

percent of Luxembourg's corporate taxes come from the banks.

in income partly to the lack of profits by two of the biggest banks, the Commerzbank and Deutsche Bank. But the Deutsche mark's value has declined considerably against the dollar, and as much as 48 percent of the assets of the Luxembourg banks are held in marks. The U.S. dollar has, in fact, declined in Luxembourg banks total assets. The major West German banks have been particulary hit by unprofitable roll-over loans. In contrast, Mr. Muehlen pointed out, the smaller West German banks have had improved profits, and the Scandinavian and domesnon-banking clients is a field which is more developed in Luxtic banks have done well. Spreads

worlds. According to Charles cies. There also have discussions in can be partly explained by the fact bone, but he stressed that this was that the state's corporate tax in-come diminished in 1980 and was stationary in 1979. As much as 80 ing sheets that the West German not a problem unique to Luxemgovernment plans is also not felt to be a source of major concern. Mr. Muchlen attributes the drop Some West German banks have al-

ready started publishing consoli-dated accounts, and it might prove a problem only for the smaller banks with weaker capital reserves. The generally declining interest in Luxembourg shown by the U.S. banks is attributed to a misunder-standing on their part. When the U.S. banks came, they thought they could find the business here from 45 percent to 37 percent of and were disappointed when they realized that they had to bring it with them," Mr. Schaus said. Indeed, part of the reason why the West Germans or Scandinavians are on the whole doing well is that

they provide a service for their cor-

porate clients at home. "Credit for

embourg than anywhere else," Mr. Muehlen said. The U.S. banks decided London was cheaper and their corporate clients could more

easily be served from there. "In the next 10 years, we hope to provide the legislation and infrastructure to encourage the banks to diversify, to build up the role of investment funds and other parabanking activities,"
Muchien said.

The view from the Banking Commission is slightly different: As long as there are international deficits to be financed, the Euromarkets are certain to exist for years and years. And the future of Luxembourg depends in part on the future of the Enromarkets. There is no question [of the markets disappearing] but there will be fluctuations in profitability as we have seen last year," Mr. Schaus

- JASPER BECKER

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1979									•	·	
June	107	12	27	6	. 5	6	14-	12	4	12	9
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1980				_							- ·
June	109	12	29	ó	5	7	13	10	- 4	12	11
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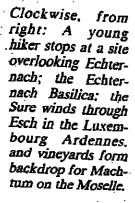
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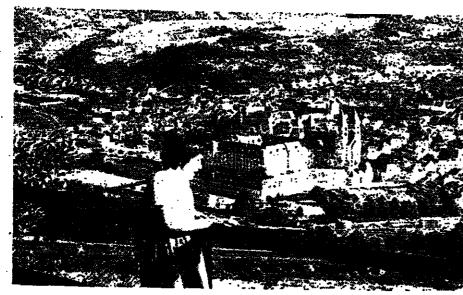
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MBOURG









up the Sure) to reach the dramatic

gorges and cliffs of the Desling, as

the Luxembourg part of the Ard-

ennes forest is called. In Vianden,

the government is restoring a me-

Haunting Ruins

The ruins of castles appear haunt-

ingly on high cliffs over river tribu-

taries. The forest is rich in game.

The rivers have trout and pike. For

This is an area for wandering.

dieval castle.

Seeing Sights Is No Problem: They're All Nearby

THE GRAND Duchy of Lux-embourg, with its 1,000-square-mile area, is like one of those small museums that may not have an extensive collection of anything but have quite a few nice paintings, and you leave satisfied that you saw the whole thing without being exhausted.

By car, bus, train or a combination, the country can be seen in a leisurely weekend. On foot, of course, it would take longer but the country does claim to be the densest in the world in walking paths and hiking trails.

Heading east from the city of Luxembourg, the Moselle River, which is the German border, is less than an hour away. This is the wine country with vineyards covering both banks. The wineries are often open to the public. They are located in tiny medieval villages that periodically hold wine fes-

tivals and tastings initiated with com-pah-pah bands and speeches.

The town of Ehnen has a wine museum in a restored winery where antique tools are displayed demonstrations presented and samples offered.

Rebuilt Town

Follow the Moselle to the Sure and continue along the German border to the town of Echternach. Although, with the exception of the 15th-century town hall, the town was destroyed at Christmastime, 1944, it was rebuilt after the war with meticulous detail. Paints were developed to match local pastel sand colors that centuries ago had indicated the trade of the oc-

Under the Basilica, vaults and assages dating to the seventh century were discovered. When excavators started clearing K-ration

By car, bus, train, or a combination, the country can be seen in a leisurely weekend. And it claims to be the world's densest in walking paths and hiking trails.

tins and other debris from Patton's Our and up the Our (or keep going army out of a hole in the floor of the Church of St. Peter and Paul, they found a well. Before they reached the level of the Sure River. they were pulling out Roman ves-

Near Echternach there is good hiking in a rocky woodland called the Mullertal, which has been pre-served by the Luxembourg government with the Germans as a wildlife park. The remains of a 12thcentury castle can be seen at Beau-

ort. the fly fisherman, insects are Follow along the Sure to the hatching at this time of year and

the trout can be seen rising and circling in pools like goldfish in a garden pond. Some hotels in the area own riv-

er rights but the Luxembourg fishing regulations are complicated, and advance information from the Administration of Water and Forests (P.O. Box 411 Luxembourg) is

The most surprising thing about the Grand Duchy is that each of these things is a matter of minutes from the next, and even if you end up camping or fishing in the wilds of the Ardennes, on Sunday night you are less than an hour from the

- MARK J. KURLANSKY

Monetary Role Is Expanding

TT MAY BE merely symbolic but the renegotiation of the Belgian-Luxembourgian economic union (UEBL) has given the junior partner the right to alter the parity of the Luxembourg franc with the Belgian franc and to take part in the decisions of the Belgian central

The change will be embodied in the creation of a financial body in Luxembourg with many of the characteristics of a central bank. Called the Institut Monetaire Luxembourgeois, it will gather under one roof functions presently carried out by the Finance Ministry, the Banking Control Commission. the statistical office and the Caisse d'Epargne.

What is perhaps a stronger indication of the weight that Luxem-bourg has in international finance

A new institution will centralize a number of monetary functions and permit the nation to play an active part in the EMS and the IMF.

is that the Institut will be able to take part in meetings of the European Monetary System and the International Monetary Fund instead of being there with observer

The UEBL has now been renegotiated for the second time. But it has been such a success that it is not too fanciful to say that it has served as a model for European in-tegration. Until the extension in March, Luxembourg had no direct say in the decisions of the Belgian national bank even though the Belgian franc's fluctuations affected the Luxembourgian currency and Belgium's economy is in a far worse state than Luxembourg's.

Now, in theory, the Luxem-bourg franc could be independent in the European Monetary System. or could attach itself to the Deutsche mark. But Ernest Muehlen, the secretary of state for finance, dismisses this possibility and points out that independence is merely theoretical. "The Belgian franc is not going to devalue." he said, "and for us to go it alone would be disastrous." The Institut has no powers of intervention, so

the Luxembourg franc would become a football for speculators.

The government hopes to pass the legislation setting up the Institut next year. A Banking Commission official, Paul Zimmer, said, "It will not dramatically change our position. The Institut will chiefly supervise the domestic situation and act as an intermediary between the Luxembourg banks and the Belgium central bank."

There are fears, however, that it might lead to a real central bank that would want to control the Eurobanks' solvency ratios and control the money supply, thereby en-dangering Luxembourg's status as

an offshore banking center. In the immediate future, the effect is that Luvembourg can issue larger banknotes of 500, 1,000 and 5,000 francs. These and the existing banknotes are only valid in Luxembourg, while the Belgian franc is valid everywhere. Only 4.5 percent of the 640 million francs in

circulation in the Grand Duchy are Luxembourgian.

The Banque Internationale a Luxembourg issues its own notes. as does the state savings bank under the direction of the Belgian na-tional bank. The BIL's privilege goes back to 1856, when it was founded concurrently with the savings bank. The right to issue notes is shared in Europe only with the Bank of Scotland.

—JASPER BECKER

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March 31, 1981

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May 1981

Banking and Finance in LUXEMBOURG

U.S. Banks Gear Up For Euromarkets

By Karen W. Arenson New York Times Service

TEW YORK -- Banks will not seem much different. They will be able to transact the new business from their old headquarters, using the same offices and the same personnel, as least for a while. But the new business represents an enormous opportunity.

Banks in the United States, the Federal Reserve board decided this month, may go after the corporate and government borrowing business now transacted in Europe, the Far East and island outposts in the Caribbean.

Challenge to London

After years of appeals by U.S. banks, the Fed agreed to suspend most regulations on foreign business conducted within the United States. As of Dec. 3, the banks will be allowed to create "international banking facilities," or IBFs. The decision means that New York, the capital of U.S. banking, could in

time challenge London as the capi-tal of world banking.

The business involved is considerable. It is a \$700-billion-plus pool, known as the Euromarket, that circulates in the international marketplace. The business has not been denied U.S. banks; many have been able to pursue it through offices they set up in London and elsewhere. But now, with less cost and inconvenience, they can try to do such business at

Creating Environment

"What the IBFs will do is create an environment where the regulatory reasons for leaving are being eliminated," said Bryan Walsh, a senior vice president at the Irving Trust Co. "Initially the effects may be small, but over time they will evolve into major money centers a la London."

This is an extremely important development on the path of deregulation," said Richard Aspinwall, a vice president at the Chase Manhattan Bank, "and it will return major financial business to the United States, and New York, that rightfully should have been here

The Fed will impose a few restraints to protect the domestic banking system from abuse. The new business will be limited to foreigners, for example, and money raised through the facilities must

tions cannot be for less than \$100,000, and depositors must give two days notice before withdrawing funds. But U.S. banks are not expected to find such restraints

Outside Europe

It was a variety of regulations in the 1960s and early 1970s that prompted U.S. banks to start conducting business from branches abroad. The dollar-denominated loans they made there, often shared with other U.S. and foreign banks, came to include dollar-denominated bond offerings conducted abroad.

Gradually, as these banks also began to take deposits and make loans in other currencies, the market became known as the Eurocurrency market or simply Euromarket. The term also came to encompass business done outside Europe - in the Middle East, Asia, the Caribbean and South America.

Bankers say that it is difficult to

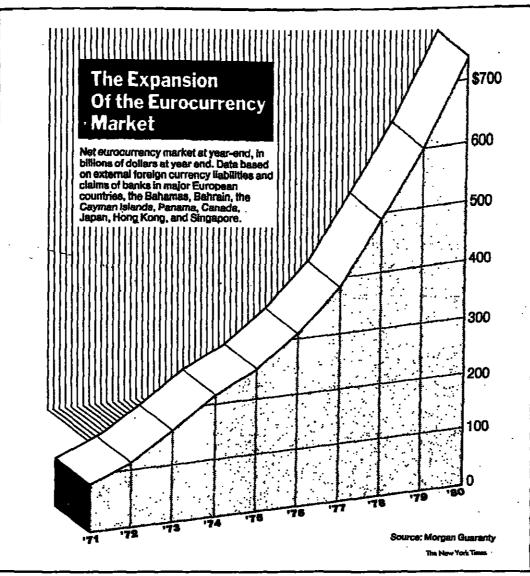
estimate how much of the Euromarket business will move back to the United States. Whether customers choose to move, they say, will be influenced by these factors: It will depend on whether interest rates in the new banking facilities are competitive with those in other financial areas, such as London or Nassau. Until now, the extra cost of reserve requirements has meant that U.S. banks have had to pay less on deposits and to charge more for loans. Rates in the new international banking facili-

ties and those available elsewhere

"should be almost identical," said

Glen Smith, a group vice president at the Bank of America, • It will depend on how much concern a customer has about the risk of having money in another country. "There is a reasonable prospect that a considerable portion of foreign depositors will be a little more comfortable with their money in the United States than in some other financial centers," said Peter Howell, a vice president at Citibank. "But that factor will probably be pretty minimal with respect to London and other European centers."

• It will depend on geographic convenience. Foreign customers may find it more convenient to do their banking close to their own operations or at least in the same



Even if customers do not rush to move their business, bankers may try to do some shifting themselves because it is both easier and cheaper to centralize their operations.

Greater Control

"From our standpoint, the really big deal about the international banking facilities is that they will allow us to exercise greater control over the management of our assets and liabilities," said Scott Rey-nolds, a senior vice president at the Bankers Trust Co. "As things have gotten dispersed to different tax havens around the world, keeping things under control becomes a lot more difficult. There are great benefits to more centralization."

Bankers predict that only a portion of the business that has sprung up in other financial cen-ters will flow back to the United States. Much of the business in the

but less of the business in Europe and Asia — is expected to do so.

Robert Walker, vice president

and associate general counsel at the Continental Illinois Bank and Trust Co., said: "The lesser financial centers are really just locations where it is convenient to have depository and loan business booked, rather than dynamic marketplaces."

Easing of Rules

The Federal Reserve said that it would authorize banks to conduct some international business free of reserve requirements, interest rate ceilings and most other regulations governing domestic banking. Some states, such as New York, have also voted to exempt this business from state and city taxes, which the banks view as another prerequisite for competing successfully with banking centers abroad. A Caribbean and Latin America - number of states, including Cali-

fornia and Illinois, have been considering such legislation.

Bankers say that they do not expect any major shifts of business immediately. What is more likely is that new loans that might previously have been booked elsewhere will be set up in the United States. Existing loans will probably remain where they are until they are paid off

What all this will mean for New York and other financial centers is not clear. When banks started advocating international banking facilities, they argued that those fa-cilities would bring jobs to the United States from abroad. But bankers say that, initially at least, there is likely to be relatively little staff movement. Many of the loans listed on the books of the banks' Caribbean branches, for example, are arranged by bankers working in other cities. So moving that business to the United States will not involve moving people.

A Colossus In Economy Of Nation

TN LUXEMBOURG'S micro-I economy, the steel industry, represented by ARBED, is a giant. It is the fourth-largest steel concern in Europe. In Luxembourg, it supplies more than 50 percent of total exports and directly employs 18,000 people. More than this, it is a multinational enterprise with interests and subsidiaries throughout the world. Its Luxembourg work force is only one-fifth of its total

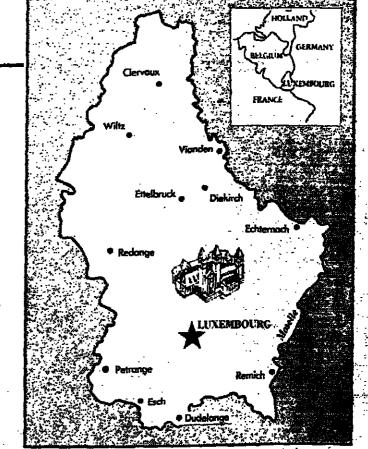
work force. With the steel industry in its gravest crisis since the 1930s, it is no wonder that ARBED is placing unprecedented burdens on the state's resources. The ARBED management is now more than ever a part of the government. Luxembourg's trade deficit of more than 19.1 hillion Luxembourg francs can directly be attributed to the European slump in steel demand because ARBED exports nearly 90 percent of its products. The accompanying 20- to 25-percent drop in prices has had a severe impact on the future of every Luxembourger.

The future does not look good. Surplus capacity in Europe is about 50 percent, according to some calculations, and by 1983 the European Economic Community is expected to have a surplus capacity of 23 million metric tons.

The crisis is by no means new, but last antumn the Davignon Plan which had managed to prevent the market descending into complete chaos, collapsed. The European Commission declared a state of "manifest crisis," which gave it far-reaching powers to con-trol production and prices under the terms of the European Coal and Steel Community Treaty. These powers expire at the end of the month, and there is not yet a complete voluntary agreement among the steel producers to take

ARBED can justifiably feel that it has done everything in its power to keep itself competitive with the rest of the European industry. Well before the last steel crisis set in in 1974, it was diversifying abroad and concentrating on upmarket, high-quality products. Nonetheless, steel production fell last year by 6.7 percent, 19.5 percent below the 1974 record. Since 1975, it has pushed ahead

at ever-increasing speed with a major investment and restructuring



program that between 1979 and 1983 has required 36.5 billion Luxembourg francs. Total investment m 1980 as a result of the unfore seen deterioration in the market had to be revised upward from 3.7 billion Luxembourg francs to 4.1 billion and is likely to remain at 4 billion a year.

The social cost in a country as

small as Luxembourg has put enormous strains on everyone. Since 1974, 6,263 jobs have been lost and there are plans for a fur-ther cutback from 18,000 to 15,600. Despite this, there has been an obvious concern for social justice, even at the cost of risking competivity. Labor costs per metric ton of rolled steel increased by 5.1 percent in 1980.

The investment program has en-sured that ARBED is as efficient as any in Europe. All the steel produced in the Grand Duchy comes from oxygen furnaces. Eventually ARBED also plans to have all its plants using continuous casting equipment. Last November, the first of these processes came on stream at the Esch-Schifflange

ARBED's competitiveness has caused problems for its neighbors in the so-called Charleroi Triangle in Belgium who have felt threatened by the more efficient plant which the Luxembourg group was bringing on stream. In February, a new agreement was reached between the Belgian and Luxembourg steelmakers following the merging of the Cockerill and Charleroi groups. This allows ARBED to go ahead with its new cold rolled steel mill at Dudelange, which replaces a previous plant. In addition, the agreement means

that ARBED will maintain cold rolling sheet capacity at the contin-uous casting installation at the Sid-mar subsidiary in northern Belgi-

The Luxembourgian company is also closely tied to a number of companies in the Saar in West Germany. Two years ago it took over the Rochling-Burbach Co., which itself holds 97 percent of the Neuenkircher-Eisenwerk and has 23 percent of the shares of the Acieries de Dilling. In the steel pro-cessing sector, the ARBED subsidiary, the boit makers Kacher and Baner & Schaurte, merged with the mechanical engineering company PHB and Weserhuette. The two mergers have led to the creation of units of considerable industrial size and commercial scope.

The next stage is for Luxenbourg to negotiate the manage-ment of a number of companies in West Germany that are engaged in various areas of steel processing to ensure coordination.

ARBED is heavily dependent on imports for its raw materials, especially iron ore and coal. It has coal mines in France and the United States but also needs to import ore from France, Brazil and Sweden, which has become ever more expensive. In order to guarantee the long-term supply of materials, ARBED is consolidating its investments in U.S. and Brazilian mining companies through its holding company SIDARFIN.

Despite all these changes, ARBED has still managed to in-crease steel deliveries by 1.3 percent in 1980. But on a turnover of 45.413 billion Luxembourg francs, the group, despite profits from abroad, had a net loss of 1.583 million in 1980.

— JASPER BECKER

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The Renaissance balcony, a handsome architectural element of the Maison de Raville.

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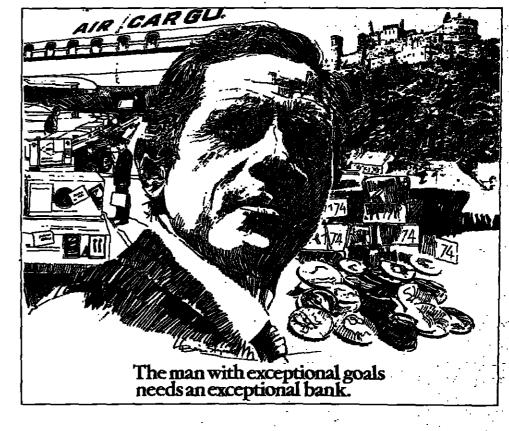
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		1980	1979
Balance sheet total	DM	8,513m	6,076m
Due from banks	DM	3,436m	2,315m
Due from customers	DM	4,455 m	2,622m
Due to banks	DM	7,372m	5,260 m
Due to other creditors	DM	630 m	420 m
Equity capital	DM	201,3m	179m
Net income for year	DM	14,0m	12,7 m

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Trade Development Bank

At left, location of one of our key Group offices: Trade Development Bank (Luxembourg) S.A., at 34, Avenue de la Porte-Neuve. Telephone 41 893.

Japanese Maintaining a Low Profile

YN JAPAN there has been agradual liberalization of restrictions on international banking. At the end of last year a new Foreign Exchange and Foreign Trade Control Law came into force, which liberalized foreign exchange transactions. But the Japanese banks are still hampered in their ef-

forts to diversify funds abroad. In Luxembourg, there are only four Japanese subsidiaries: The Tayo Kobe Bank (Luxembourg), the Nikko (Luxembourg), the Bank of Tokyo (Luxembourg) and the Indusurial Bank of Japan (Luxembourg).

Permission to open a new office abroad is strictly controlled by the central bank, which also influences the choice of location. The first Japanese bank arrived in December, 1973, and by the end of 1978, all four were in operation. Since then, others have considered the move but there are no indications as to whether they will go through with it. London is in many ways a more attrac-tive possibility but many Japanese have already gone to Amsterdam and Brussels. Singa-

pore and Hong Kong are, how-ever, usually looked upon as the first priority.

The Japanese banks are all

here for quite different reasons. which depends on the structure of their network of other foreign subsidiaries and branches." said Yoshio Nakanishi, the managing director of The Taiyo Kobe Bank (Luxembourg), His bank has offices in more than 20 foreign locations and recently opened a new branch in Singapore. The Luxembourg office still represents the bank's first subsidiary of this kind in Eu-

Overseas Assets Wherever they are, the Japanese banks seek both to service the needs of local Japanese companies and to raise money on the interbank market. The higgest Japanese banks have overseas assets that are now estimated at between 20 percent to 30 percent of their total. Their long-term overseas lending with fixed interest rates usually has to be supported by short-term borrowings from the Euromoney market. The Japa-nese banks in Luxembourg, in

Japanese companies in Europe appreciate the nation's central

The subsidiaries are small, however. The Bank of Tokyo and the Industrial Bank of Japan are the largest, with each having total balance sheet assets in the beginning of last year of little more than 8 billion Luxembourg francs, After three years in Luxembourg, The Taiyo Kobe bank had in March assets of 7.5 billion Luxembourg francs and fully paid up share capital of 250 million.

The profitability of the Japanese banks in Luxembourg has so far not been as good as was hoped, although three of them have not been there long. The reasons generally cited for this are the volatile market and the fact that Japanese capital has been attracted to the high U.S. interest rates. Another difficulty is that the Japanese concentrate on lending and borrowing activities without having other business to fall back on. But this may slowly change — the gold market is being given se-rious consideration, for in-

—JASPER BECKER

Men at the Top: Driving Forces, Linguistic Leanings

A S ONE OF the most senior of A the Luxenbourg bankers, Al-bert Dondelinger shows breezy good spirits that belie the authority his voice carries in Luxembourg banking circles. As chairman of the oldest commercial bank in the Grand Duchy, his career has had a surprisingly international flavor. After gaining a doctorate in law at the Catholic University of Louvain in Belgium, he served a spell with both the World Bank and the International Monetary Fund.

Volker Burghagen

Since then he has at various stages held nearly all possible public offices connected with banking in Luxembourg: banking control commissioner, chairman of the Luxembourg Bankers Association, adviser to the finance minister. among other things. As a spokesman for Luxembourg in interna-tional forums, Mr. Dondelinger has taken part in North-South discussions and has served on the Governor's Committee of the EEC Central Banks and the IMF Interim Committee

"I have the impression that the international situation is under control," he said, expressing his cautiously optimistic view as the Polish debt rescheduling crisis fades from the news.

He said that, while 1980 was a special year, the very high profits of the 1970s are not likely to return. As chairman of the Banque internationale a Luxembourg be can have few complaints after its highly successful year.

"I never wanted to become a banker but a professor of linguis-tics and philosophy," Edmond Is-rael said with a smile. Nonetheless, he has spent more than 30 years with the Banque Internationale a Luxembourg. In addition to being one of its directors, he is also a director of the Luxembourg stock director of one of the most success-exchange and the chairman of ful and oldest domestic banks. Un-



Ernest Muehlen

Remy Kremer

CEDEL, the international bond

clearinghouse. Mr. Israel finished his education abroad at the University of Montpellier in France. Having witnessed Luxembourg's rise as a financial center, he is in a good position to comment on its present situation, which he sees as a phase of consolidation.

He was one of the driving forces behind the creation of CEDEL, which is based in Luxembourg, but he says he is surprised at the clearing system's success.

At 53 Remy Kremer is, like many of the leading figures in Lux-embourg banking circles, comparatively young to be the managing der his leadership the Banque Generale du Luxembourg is continuing to expand, and a difficult year has not prevented the bank turning in

a sizable profit For Mr. Kremer a doctorate in law has proved an ideal qualification for a banking career. Having started at the Banque Generale in 1954, well before the Euromarkets sprung up, he has seen the bank row from a modest retail bank to

universal one. 'The international banks brought the business here. Without them we would never have thought in the same volumes," he said. Part of the attraction was the Luxembourg Bourse, and Mr. Kremer is its administrator and a former president.

Mr. Kremer was one of the movers behind the attempt to set up the computerized bond-dealing system, Eurex. It folded this year, but Mr. Kremer believes that the idea was good but the timing a litde premature.

One of the first people a banker will meet if he is thinking of set-ting up an office in Luxembourg is the banking commissioner, Pierre Jaans. He must make sure that the bank is established and has solid resources, and the Banking Commission scrutinizes the bank's managerial staff as well.

At 45, Mr. Jaans is described by one of his colleagues as having the powers of a dictator, although these are hardly used. The control exercised is felt by the bankers to be sensitive and careful. In a small place like Luxembourg, relation-ships are on an amiable and friendly basis.

He was appointed commissioner in 1976 by the government after serving a spell as general-secretary to his predecessor and having gathered international experience at the Organization for Economic Cooperation and Development in Paris and the Bundesbank in theoretical option. Under his guidance, the administration of Luxembourg's finances and banking control will be merged under one roof as the Institut Monetaire.

Edmond Israel

European Investment Bank.

pendently of the Belgian franc. but Mr. Muchlen stresses that this is a

It is the task of the secretary of state for finance, Ernest Muchlen, to carry out the promise, made by One of the most outspoken figthe current government, to round ures among the foreign bankers in off Luxembourg's financial profile. Luxembourg, Volker Burghagen has been looking after the He is well-qualified for the task, having developed an insight into the financial operations in Luxem-Dresdner Bank's Luxembourg subsidiary since 1972. He has also bourg and outside as a financial helped to make the Compagnie journalist. He has, in fact, won a Luxemonurgeoise de la Dresder number of prizes, including the Benelux Journalist Prize of 1969. Bank the most successful of the big three West German banks. The He has also worked for many Dresdner has proved to be someyears at the European Commission. During the 1950s, he was the thing of a pacesetter for the Ger-

mans as a whole. senior adminstrative officer of the European Economic Community's Like all the bankers in Luxembourg. Mr. Burghagen speaks per-fect English, which he needs in his press and information department; later on, between 1968 and 1973, other capacity as joint general manager of the Dresdner's New he dealt with cooperation between the European Commission and the York Branch. Characteristically, like many of the bankers who have Mr. Muchlen conducted the reseen Luxembourg grow during the last decade. Mr. Burghagen identinegotiation of the economic union with Belgium. The Luxembourg fies strongly with the place and franc could now be valued indespeaks with some enthusiasm

about its future. —JASPER BECKER

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ASSETS Cash and Banks 4.089.835.587 Notes Receivable 7.295.583.628 Loans & Advances 6.478.977.488 Securities 208.784.625 Fixed Assets 16.169.055 794.774.093 Other Assets

TOTAL ASSETS 18.884.124.476

Deposits from Banks 13,992,900,388 Customers Deposits 3.171.093.984 Other Liabilities 605.421.465 Capital 500,000,000 Reserve & Provisions 547.245.111 Profit 1980 after tax 67.463.528

LIABILITIES

stance.

TOTAL LIABILITIES 18.884.124.476

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-Banking and Finance in LUXEMBOURG—

RTL Is Taking a Chance on Europe-Wide TV Satellite Struggle Over EEC Intensifies

rope, it had to muscle its way into

At the moment it lays claim to

being the most-watched station in

Belgium and a large slice of north-

ern France. As a radio station its

reputation goes back 50 years. To-

day the radio has about 1.5 million

listeners in Europe every night as it

broadcasts from a villa in Luxem-

bourg. RTL also has up-to-date studios off the Champs Elysees in Paris, which are producing televi-

sion programs and audiovisual

ctions. Radio Luxembourg

broadcasts for German-,

satellite television.

IT TAKES a certain amount of a courage to prepare to launch a satellite that might end up costing more than \$20 million when you are not even sure that you will ever be allowed to have an audience.

Radio-Television Luxembourg is in danger of finding itself in this position. The plan is for RTL to put a satellite in orbit with the help of either the U.S. space shuttle or the European Ariane that would give it a Europe-wide television au-

The snag is not so much finding the money but getting the French and West German governments to agree to it. as their radio and television media are generally state-controlled. So far they have been firmly opposed. Expectations that there will be changes in the French media because of the Socialist victory do not yet extend to accepting commercial television on this scale.

Despite Luxembourg's appeal to ty partners to show a European

The snag is not so much finding the money but getting the French and West German governments to agree to it, as their radio and television media are generally statecontrolled ...

spirit, it is going to have to come up with something stronger if it is to overcome political opposition on this scale. It has some backing, however. The plan came from a de-cision in 1978 at the World Administrative Radio Conference to give the Grand Duchy five channels for direct satellite broadcast-

Leading Network

RTL realized at that time that, if it was to build upon or even hold its position as the leading commercial broadcasting network in Euences.

More than entertaining a weekly audience estimated at more than

40 million, RTL has its own symphony orchestra and has interests in publishing film distribution and the national airline, Luxair. Therefore, RTL is a major employer and one of the biggest taxpayers. It also means that a lot is hanging on the outcome of the satellite project. Last year RTL made a net profit of \$27 million and paid taxes in one way or another amounting to \$46 million. This could well be swallowed up in the 10-year plan for the satellite. But the gains from reaching a potential audience of 80 million are attrac-

Media Policy

The idea has raised much oppo-sition in West Germany, but it has been supported by some West Ger-man newspaper publishers. The Bundesverband deutscher

Dutch- and Italian-speaking audi-ences.

Zeitungsverleger are joining with Luxembourg to establish the Compagnie Luxembourgeoise de Telediffusion (CLT). This company will launch the satellite in which Radio Luxembourg has a 51-percent stake and the West German press 25 percent.

No Money on Table

The decision in March by the press was interpreted by the West German Social Democratic Party as a declaration of war against media policy. The newspapers see it differently. According to them, the balance between the commercial press and the state-owned radio and television companies is al-ready distorted. And, since satellite television is bound to come anyway, they feel they might as well get in on it from the start.

But nobody has yet put any money on the table, and the earliest possible date for a satellite launching is 1985. Meanwhile, nobody is quite sure what sort of programs will be broadcast. Equally pertinent is the question of how the viewer will receive programs. Satellite television needs either a dish antenna on one's own roof or a cable from someone else's. In fact, what is imagined is a cable network, which would require a larger degree of governmental cooperation if its is ever to be laid.

For RTL, the decision to go ahead with the project is a calculated gamble - not only because the governments in question hold the power to pull the plug out of cable television now and at any time in the future but also because the programs might not reach a large enough audience to make it worthwhile.

—JASPER BECKER

Small Town

Puts Festival

On the Map

Thirty-four concerts of

days of jazz are being

range from Mstislav

Gillespie.

Rostropovich to Dizzy

Cellist Mstislav Rostropovich and his wife, singer Galina Vishnevskaya, performed Russian songs; Rostropovich will do an eve-

Russian songs; Rostropovich will do an evening of Bach in July; guitarist Alexandre Lagoya performed Spanish pieces; the Berlin Chamber Music Ensemble will do an evening of Mozart and another of Haydn; pianist Vladimir Ashkenazy performed Beethoven and Chopin sonatas; violinist Yehudi

Menuhin will do Brahms, Bartok and Bee-

thoven; and the chorus of Milan's La Scala will sing Rossini. The jazz will include Dizzy Gillespie and Sarah Vaughn.

Less celebrated artists will also be featured including controllers.

tured, including some young, relatively un-known names such as French flutist Jean-

Charles Candido and Korean violinist Dong

presented in this year's event. The participants

WHATEVER the final decision is on the permanent site of the European Economic Community's institutions, there will be a lot of angry people and a number of luxurious offices and conference centers standing empty.

At the moment, the EEC's organizations are distributed in three cities. Brussels. Luxembourg and Strasbourg, but the EEC treaties state that these sites are only provisional. In the meantime, a considerable amount of money has been invested in duplicating buildings and infrastructures to accom-modate EEC civil servants and parliamentarians.

The European Parliament has set itself the task this month of deciding where it wants to be based. The EEC treaties in fact stipulated that the final decision of the site of the Community's institutions rests with the governments of the member states. At the last summit meeting in the Netherlands, the EEC heads of state discussed but again failed to reach agreement on

The Parliament now has an impressive new building close to the European Commission in Brussels. where committee meetings are held and part of the secretariat's work handled. It has so far mostly held its plenary sessions in Strasbourg, where it also has offices and a hemicycle borrowed from the Council of Europe.

According to EEC agreements the Parliament's secretariat is to be located in Luxembourg. And in order to lure the plenary meetings away from Strasbourg, Luxem the other buildings at Kirchberg. It

The Grand Duchy has invested a lot. and the outcome is uncertain...

was completed last year at a cost of 1.2 billion Luxembourg francs but has rarely been used, and the Luxembourgers suspect that it will never again be used, at least for the Parliament.

Economic Impact

In a country as small as the Grand Duchy, the presence of the Parliament and other institutions is more than a question of prestige. The well-paid employees have an impact on the Luxembourgian economy. The EEC employs 6,500 people in Luxembourg, who work for the European Court of Justice, the Court of Auditors, the Europe-an Investment Bank, the Statistics Office, the European Parliament and the Commission itself.

Many of them like Luxembourg. where they do not pay income tax-es and get luxury goods free of val-ue-added tax. The non-Luxenbourgian officials and their fami-lies number 10,000, and about an additional 7.3 billion Luxembourg francs of buying power to the economy. In return for this, the state is spending 10 billion Luxembourg francs out of its 1981 budget on measures to enable the city to accommodate the EEC's institu-

The EEC buildings, concentrated on a plateau three kilometers outside the city of Luxembourg, were opened in 1966. The Kirchberg Plateau is linked to the city

by a metal bridge and a fast highway. Scattered around this verdant field are modernistic steel and glass structures. Like most of the buildings, the new hemicycle is an impressive piece of well-designed modern architecture. It is constructed as a series of terraces leaning against the slope of one of Luxembourg's ravines and is equipped with every conceivable

Despite this, the parliamentarians are not enthusiastic about making it their permanent home. Nor are they content with their present lifestyle, which has come to resemble that of a traveling circus. Traveling with them from Brussels to Luxembourg to Strasbourg are a large group of staff and a mountain of documents in

each Community language. The parliamentarians have be-come accustomed to holding their assemblies in Strasbourg, which was initially chosen because it had a chamber large enough to accommodate all its members. And, in all fairness, it must be said that Strasbourg is generally regarded as the pretuer town, with a historical tradition of being the link between Germany and France.

Many parliamentarians favor Brussels because is the true seat of the EEC's power. The Council of Ministers and the Commission are based in the Belgian capital, as well as nearly all the lobby groups. But Brussels has yet to build a chamber large enough to accom-modate the 510 members of the Parliament. The possibility of building a hemicycle for the Parliament is being discussed but no decision has been made.

— JASPER BECKER

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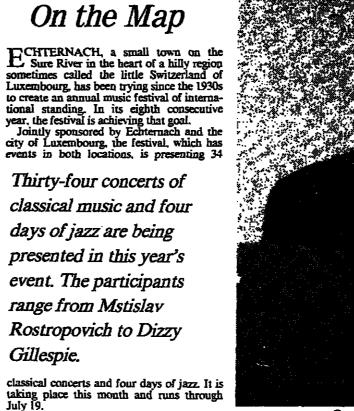
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Cyprien Katsaris, musical director since 1978.

French pianist Cyprien Katsaris, who has in recent years been acclaimed by the European press. Mr. Katsaris has been musical director since 1978 and has been credited with bringing in some of the names that have given the festival stature, such as Isaac Stern, Nathan Milstein, Pinchas Zucherman and Benny Goodman.

The town of Echternach is considered one of Luxembourg's major attractions, with the seventh-century abbey of St. Willibord,

which produced some of Europe's most-prized illuminated manuscripts.

The concerts are given in three places.
Seating capacity for 1,300 persons is ar-ranged in the Basilica at Echternach. This building has underground portions going

back to the seventh century, and 12th-centu-

200 E

Per visit

our p

ry frescoes are visible on some walls. Chamber music is performed in the Church of Saint Peter and Paul with a 400to 500-seat capacity. This church, thought to be the oldest in the country, is a fascinating combination of Roman and Gothic styles with modern stained-glass windows. All of the jazz and some of the classical concerts are performed in the city of Luxembourg at the Theatre de la Ville.

Tickets cost between \$10 and \$20. With the reputation of the festival growing, the earlier boast that tickets were always available, even for top name performers, is no longer true. Artists such as Menuhin and Ashkenazy were sold out well in advance.

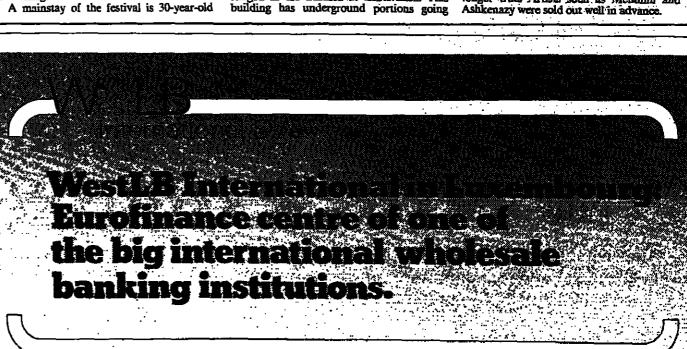


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Growth of Euromarkets Is Lifting BIL Out of Its Provincial Limitations

IT HAS TAKEN a while for the Banque Generale du Lux-embourg (BIL) to live up to its name. The bank has just celebrated its 125th birthday, but it is only gium. They rank 12th and ninth, in the last 20 years or so that it has managed to be active internation-

The advent of the Euromarket has lifted the BIL and other domestic banks out of the provincial restriction that Luxembourg's size

In 1856, the BIL was launched with an initial capital that was 50 times greater than the country's business could possibly need. Per-mission to establish the bank was granted by a grand ducal decree. With the decree went the right to issue its own money, which the BIL still does, sharing the privilege with the Caisse d'Epargne de l'Etat du Grand-Duche de Luxembourg. also founded in 1856.

Tradition is a fine thing, but what has made both these banks stand out is their ability to match the opportunities offered by Luxembourg's new role as an international financial center. The Caisse d'Epargne holds fifth place in balance sheet size, and the BIL is seventh among the 112 banks in Luxembourg — a not insignificant achievement in view of the number of banks competing for the domes-

Economic Union

It is difficult to define what counts for a domestic bank. Only the BIL, the Caisse d'Epargne and the Banque Generale du Luxembourg have an extensive network of branches in the Grand Duchy. The economic union with Belgium does mean though that the Belgian banks regard Luxembourg almost as their home territory.

The Banque Bruxelies Lambert. for instance, has a 40-percent share in BIL, although the BIL justifi-ably considers itself to be an independent Luxembourg bank. Two of the most powerful Belgian banks, Societe Generale de Banque and Kredietbank, founded major subsidiaries in Luxembourg, which are now fully independent and regard themselves as Luxembourg banks, too. The Kredietbank Lux-embourgeoise was founded in 1949 before the Euromarket sprang up,

Major city, inhabitants:

Population, net natural increase

Employers, self-employed persons

Gross domestic product (1979)

Gross domestic product

THE LAND

Luxembourg (October 1978) 79,600

Population (Jan. 1, 1980).......363,700

Number of inhabitants per sq. km......141

PRODUCTION

THE PEOPLE

the 1922 economic union with Belrespectively, in total balance sheet

There are 12 Belgian or Luxem-bourgian banks, and the three largest have a total of 178 branches between them serving a country with a population of 360,000, so it can robably be said that the Luxembourgers are not underbanked. But the stimulus that the Euromarket has given the domestic banks has encouraged them to expand abroad. The BIL has opened representative offices in New York and Singapore to attract some international business in Southeast Asia and North America. The Banque Generale has representative offices in Milan, Mexico City and Hong

With a few exceptions, the domestic banks are universal banks taking full part in the Euromarket business, and so are indistinguishable from the foreign banks. The Caisse d'Epargne, a sort of em-bryonic central bank (the central bank went bankrupt more than 100 years ago), is a tough competitor on the domestic front.

Because it can take advantage of a state guarantee for savings depo-sits, it can lend at a much cheaper rate than the BlL or the Banque Generale. While the commercial rate in Belgium has fluctuated around 16 percent, the Caisse d'Epargne has been able to offer 8 percent or 9 percent. This state of events, together with the Caisse d'Epargne's other fiscal and legal advantages, led to such an outery that a few weeks ago the govern-ment finally decided to put matters right, by making the Caisse follow the commercial interest

The risk capital needs of the Luxembourgers are now also covered by the Societe Nationale de Credit et d'Investissement (SNCI). The SNCI was set up in 1977 to finance improvements in the structure of the Luxembourg economy. Capital is now readily available for modernization, diversification, export financing and new ventures. Last year, the investment bank benefited from a second global

LUXEMBOURG



Albert Dondelinger

loan of 200 million Luxembourg francs from the European Commission. Its primary task is to stimulate small- and medium-size businesses in the hope that they will replace the jobs lost by the restructuring of the steel industry. This year and last, there were 1.211 billion Luxembourg francs allocated for that purpose. The balance sheet total has risen by 26 percent between 1979 and 1980. d'Epargne kept its end up by manfrom 2.442 billion to 3.09 billion Luxembourg francs.

Savings Bank Funds

There has been a considerable drop in savings bank funds. Depo-sits at the BIL, Banque Generale and Caisse d'Epargne dropped 10 percent between 1979 and 1980 to 48 billion Luxembourg francs, and the domestic investors have shifted in a large way to one-month depo-

The big domestic borrowers apart from the state are ARBED. the giant steel company, and RTL, Radio-Television Luxembourg. The state budget deficit reached a record 1.4 billion Luxembourg francs in a country that is used to budget surpluses. The 1981 budget provided for spending about 52 billion Luxembourg francs, up 12 percent from the year before be-cause of the need for more industrial investment. RTL is now deciding whether to invest in a direct

Percent of GDP (1979)......26.6

Per head, US\$ (1979)2,592

Agriculture 3.2

Energy......2.4

THE GOVERNMENT

percent of GDP56.5

billion francs......24.6

Christian Social Party......40.7

Source: OECD (March, 1981)

stion (1979).

Central government debt (Dec. 31, 1979)

Composition of the Chamber:

Gross domestic product by origin,

at market prices (1978):

satellite, which over 10 years could cost 10 billion Luxembourg francs. tion abroad has been built on the chances offered by the establish-

The government is proposing to increase its revenues with a special increase in unemployment insurance contributions in order to pay for ARBED, which, although better off than some European steelmakers, is having problems. Steel exports have dropped 4 percent in volume and prices have remained low. ARBED plans to invest 4 billion Luxembourg francs a year un-

Although 1981 will probably be as bad a year for the Luxembourg economy as 1980 was, the domes tic banks have been doing well. Like all the banks, they have been hit by the low spreads and the need to make provisions for the drop in the value of their long-

Loans by Luxembourg banks in-creased by 34.6 percent between 1979 and 1980, from 918 billion Luxembourg francs to 1.236 trillion. The domestic banks contributed to this increase. The BIL managed 10 Euroloans and took part in 154 others, and the Banque Continentale du Luxembourg in-creased its loan volume by 7.794 billion Luxembourg francs to 29.917 billion. Even the Caisse aging 10 syndicated loans.

Balance sheet growth has also been maintained. The Banque Generale du Luxembourg in-creased its balance sheet total by 31 percent from 93 billion Luxembourg francs to 123 billion. Profits have risen from 224 million Luxembourg francs to 247 million.

The Banque Generale has set up subsidiary banks, Colhylux and Cregelux, which have made appreciable profits. Cofhylux, with a embourg francs, produced a profit

of 16.1 million.

The BIL's balance sheet total rose by 27 percent with an increase in deposits by non-bank clients from 58 billion Luxembourg francs to 79 billion. The BIL had less recourse to refinancing its loans with advances from other banks. Domestic and international lending increased more slowly than in previous years, growing only 16.1 percent, against the 28.2 percent of 1978-1979. Profits were 319 million Luxembourg francs, an increase of 10 percent.

The increase from depositors other than banks has been one of the chief surprises of the last year. Private customers placed 35 percent more than in 1979-1980. The new secrecy law governing banks has helped, but the French and the Belgians have always had a tradition of using Luxembourg as a tax haven. Nevertheless, Luxembourg has still to gain the reputation of Switzerland and its clientele.

The BIL's managing director, Albert Dondelinger, said, "What is clear is that the boom years of the '70s, with their very high profits, the years to come, profitability is sure to be lower but still good. We have had to make reserves for normal banking risks and during the good years I think we have made

Significant Changes

The more cautious approach that the BIL is recommending comes after the bank has itself of significant changes among the domestic banks. It was given a ma-jor impetus in 1977 when it nerged with the Luxembourg subsidiary of Banque Bruxelles Lambert. It has also become a major shareholder in the Banque Continentale du Luxembourg (60 per cent), the Banque Nationale de Paris (40 percent), the Caisse Hypothecaire (96 percent) and Preci-

ux (50 percent). This success in gaining recogni-

ment of a large part of the Euromarket in Luxembourg. The BIL now must consolidate these gains and try to achieve a significance outside Luxembourg.

This new assertive spirit was reflected when Luxembourg renegotiated the economic union with Belgium. The Luxembourgers gained the right to make the Luxembourg franc independent from the Belgian franc. The perennial threat of a devaluation of the Belgian franc has convinced the Luxembourgers that they ought to have the option of floating the Luxembourg franc by itself, or of linking it with another currency

such as the Deutsche mark. Another indication of the confidence that financial leaders are showing in their country's role in the banking world is the plans to establish the Institut Monetaire

pushed by the secretary of state for finance. Ernest Muhlen, for a number of reasons. It would tidy up the administration of finance by placing the Treasury, the Finance Ministry, the Banking Commission and certain parts of the state savings bank (Caisse d'Epargne de l'Etat) under one

Critics see dangers, however, Without a central bank, as it is

part as a full member in the International Monetary Fund or other forums where central bankers meet. Although it is useful to join in decisions made there, critics say Luxembourg may be trying to be more than an offshore banking center - an offshore center cannot function with a central bank seeking to control the lending and borrowing of commercial banks.

— JASPER BECKER

Financial Highlights

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as per December 31st, 1980

in DM million 686 1037 Deposits 1679 50 Capital and Reserves 1752

Christopher Wood

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DEVELOPMENT OF OUR BUSINESS ACTIVITIES IN 1980.

The steady growth of our Euromarket transactions manifests itself in the increased balance sheet total which was raised to DM 4.015 millions in 1980.

In order to be able to enhance our operations we increased our capital stock by DM 18,5 to 68,0 millions at the end of 1980. This brought our total capital funds to DM 174 millions.

On january 1st, 1981 NORD/LB Norddeutsche Landesbank Luxembourg S.A. - a 100-percent subsidiary of NORD/LB Hannover/Braunschweig, adjusted its name to that of its parent company.

	1980							
	4.015 Mio. DM	Balance sheet total	3.524 Mio. DM					
	1.757 Mio. DM	Volume of credit	1.137 Mio. DM					
	1.957 Mio. DM	Due from banks	2.067 Mio. DM					
-	146 Mio. DM	Securities	214 Mio. DM					
	3.704 Mio. DM	Deposits	3.264 Mio. DM					
	174 Mio. DM	Capital funds	127 Mio. DM					

NORD/LB Norddeutsche Landesbank Luxembourg S.A. 29, Avenue Monterey B. P. no 121 L-2163 Luxembourg

Telephone 472391-1 General Service 470801-07 Arbitrage 29241-44 Securities KALLE 6000

Telex 2866 NORD/LB General Service 2263 NORD/LB Dealing 2889 NORD/LB Credit Dept. 47239157 Telekopierer Commercial register Luxembourg No B 10405

LUXEMBOURG S.A.

Banks Operating in Luxembourg

PUBLIC SECTOR BANKS Caisse d'Epargne de l'Etat du Grande-Duche de Luxembourg Banque de l'Etal, I place de Metz.

· Societe Nationale de Credit et d'Investissement, 3 rue de la Congrega-COMPANIES INCORPORATED IN LUXEMBOURG

· Aktivbank International S.A., 88 Grand-rue. Badische Ko International S.A., 9 boulevard Roo-

Banco di Roma International S.A., 25 boulevard Royal. Banco di Santo Spirito (Luxem-

bourg) S.A., 33 boulevard Prince Hen- Bank Handlowy International S.A. Luxembourg, 22-24 boulevard Royal.

Wirtz International (Branckwalux) S.A., 17 Cote d'Eich. Bank of America International S.A., 35 boulevard Royal.

Bank MM, Warburg-Brinckmann,

 Bank of Boston S.A., 41 boulevard Royal.

Bank of Credit and Commerce International S.A., 39 boulevard Royal. Bank Oppenheim Pierson Interna-tional S.A., 19 Cote d'Eich.

bourg S.A., 5 boulevard Royal S.A. Luxembourg, 10 rue Aldringen.

• Banque de l'Union des Cooperateurs Luxembourgeois S.A., 4 rue de

Banque de l'Union Europeenne (Luxembourg) S.A., 25 boulevard

 Banque de Luxembourg S.A., 80 place de la Gare.

Banque de Paris et des Pays-Bas

pour le Grande-Duche de Luxen-bourg S.A., 10a boulevard Royal. S.A., 27 avenue Monterey.

• Banque Interatiantique S.A., 8 rue de la Greve.

bourg S.A., 2 boulevard Royal. Banque Nationale de Paris (Luxem-

bourg) S.A., 22-24 boulevard Royal. aque Nordeurope S.A., 47 boulevard Royal. Banque Populaire Suisse S.A. Luxembourg, 39 rue Notre-Dame.

 Baverische Landesbank Interna-tional S.A., 25 boulevard Royal. Baverische Vereinsbank tional S.A., 17 rue des Bains. Bergen Bank International S.A., 88

 Berliner Bank International S.A. • BfG: Luxembourg societe anoBHF-Bank International, 88 · Caisse Hypothecaire du Luxen-

bourg S.A., 69 boulevard de la e Canadian American Bank S.A., 33 boulevard Prince Henri Chase Menhattan Bank Luxembourg S.A., 47 boulevard Royal.

· Christiania Bank Luxembourg S.A., 88 Grand-rue. · Citibank (Luxembourg) S.A., 16 avenne Marie-Therese.

 Cofhylux — Compagnie Fonciere et Hypothecaire du Luxembourg S.A. 14 rue Aldringen.

 Commerzbank International S.A. 11 rue Notre-Dame. Compagnie Internationale pour le Financement de l'Energie Nucleaire, 22 boulevard Royal.

 Compagnie Luxemhourgeoise de la Dresdner Bank AG — Dresdner Bank International S.A., 26 rue du Marche-

• Copenhagen Handelsbank Interna-tional S.A., 37 rue Notre-Dame. • Credit Europeen S.A., 52 route • Credit Suisse (Luxembourg) S.A.,

23 avenue Monterey. Crezelux — Credit General du Luxembourg S.A., 27 avenue Monterey. Den Danske Bank Internationa

S.A., 18 avenue Marie-Therese. Den norske Creditbank (Luxen) bourg) S.A., 35 boulevard Prince Hen-Deutsch-Skandinavische Bank

(Luxembourg) S.A., 15 rue Notre Deutsche Bank Compagnie Finan-ciere Luxembourg, 25 boulevard Roy-

al S.A., 16 boolevard Royal.

DG Bazk International, 25 boule-

Discount Bank S.A., 52 avenue de • East West United Bank, 10 boule

 Gotabanken (Luxembourg) S.A., 31 Hanse Bank S.A., 25 boolevard Royal.

S.A. 6 boulevard Joseph II. HELABA Luxembourg sische Landesbank International S.A.

4 place de Paris. Hypobank International S.A., 37 devard Prince Henri. Industriebank International S.A. 22-24 boulevard Royal. · International Resources and ance Bank S.A., 31 Grand-rue.

International Trade and Invest-

ment Bank S.A., 22-24 boulevard

• Kansallis International Bank S.A. 25 boulevard Royal. • Kredietbank S.A. Luxembourgeoise, 43 boulevard Royal. Lampebank International S.A., 25 boulevard Royal.

 I andechank Rheinland-Pfalz und Saar International S.A., 6 rue de l'Ancien Athenee. Landesbank Stuttgart International

S.A., I Place d'Armes. • Lavoro Bank International S.A., 25 boulevard Royal. • Luxembourg Italian Bank S.A., 63

avenue de la Liberte. · Manufacturers Hanover Bank Luxembourg S.A., 39 boulevard Prince Nord/LB Norddeutsche Landes-

bank Luxembourg S.A., 29 avenue • PK Banken International (Luxembourg) S.A., 47 boulevard Royal. Privatbanken International (Den-

mark) S.A., 16 boulevard Royal. Provinsbanken International (Lux-embourg) S.A., 25 boulevard Royal. Schroeder, Muenchmeyer, Hengst International S.A., 25 boulevard Roy-

Skandinaviska Enskilda Banken (Luxembourg) S.A., 16 boulevard Societe Bancaire et Financiere S.A. 55 boulevard Royal.

 Societe de Banque Suisse (Luxen-bourg) S.A., 43 boulevard Prince Hen-Societe des Banques S.G. Warburg

et Leu, 22 rue J.P. Brasseur.

Societe Europeenne de Banque
S.A., 25 boulevard Royal. Societe Luxembourgeoise de Banque S.A., 15 avenue Emile Reuter. nska Handelsbanken S.A., 37

The Bank of Tokyo (Luxembo S.A., 22-24 boulevard Royal. The Industrial Bank of Japan (Lux-embourg) S.A., 5 boulevard Royal.
The Nikko (Luxembourg) S.A., 88

The Taiyo Kobe Bank (Luxembourg) S.A., 33 boulevard Prince Hen-

bourg) S.A., 34 avenue de la Porte-Trinkaus & Burkhardt (International) S.A., 14 boulevard Emmanuel Ser-

vais. ● UBAE Arab German Bank, 22-24 boulevard Royal.

Union Bank of Finland International S.A., 25 boulevard Royal. Union de Banques Suisses (Luxem-bourg) S.A., 36-38 Grand-rue.

 United Overseas Bank (Luxembourg) S.A., 8 boulevard Royal, · Vereins and Westbank Internation ale S.A., 25 boulevard Royal. West LB International S.A., 32-34 boulevard Grande-Duchesse Char-

• Westfalenbank International S.A. 31 bouleyard Prince Henri. COOPERATIVES AND AGRICUL-

TURAL ASSOCIATIONS Caisse Centrale des Associations Agricoles Luxembourgeoise, 28 boule-

· Fortuna, societe cooperative de credit et d'epargne, 128-132 boulevard

FOREIGN BRANCHES American Fletcher National Bank (of Indianapolis), 40 boulevard Joseph

 Banco di Roma per la Svizzera (of Lugano, Switzerland), 41 boulevard Bank Hapoalim B.M. (of Tel Aviv),

16 boulevard Royal. Bank of China (of Peking). 9-11 Grand-rue. Banque du Gothard S.A. (of Luga-

no, Switzerland). 41 boulevard Royal.

Bank Hapoalim (Suisse) S.A. (of Zurich), 16 boulevard Royal. Banque Privee S.A., (of Geneva), 20 boulevard Emmanuel Servais.
 Bausparkasse Gemeinschaft der Freunde Wuestenrot gemeimuetzige GmbH (of Ludwigsburg, West Ger-many, 25 boulevard Royal.

 Beamtenheimstaettenwerk Gemein nuetzige Bausparkasse fuer den oeffentlichen Dienst, Gesellschaft mit beschraenkter Haftung (of Berlin/Hameln, West Germany), 4

boulevard Royal.

Credit Industriel d'Alsace et de Lorraine S.A., (of Strasbourg), 103 · Credit Lyonnais (of Lyons), 26a

boulevard Royal.

Discount Bank (Overseas) Ltd., (of Geneva), 52, avenue de la Liberte.

European American Banking Corp. (of New York), 31-35 boulevard Israel Discount Bank Ltd. (of Tel.

 Northwestern National Bank of Minneapolis, 33 boulevard Prince Philadelphia National Bank, 14 rue

• Societe Generale Alsacienne de Banque S.A. (of Strasbourg), 15 avenue Emile Renter.

The First National Bank of Boston, 41 boulevard Royal.

—Banking and Finance in LUXEMBOURG—

Grand Duchy Resists Increasing Pressure

By Craig Anderson

BANKS FROM EUROPE and further afield have chosen Luxembourg as an offshore banking center and, during the last decade, the nation has become an important center for the Eurocurrency market. But moves are under way at national levels and at the European Commission in Brussels that could greatly hurt Luxem-

bourg in international banking.

The main characteristic of the 20 or so other offshore banking centers around the world is the absence of corporate tax on bank profits. Not so with Luxembourg. With a corporate tax rate standing at a relatively high 48 percent, total taxes on a bank's earnings in the Grand Duchy can amount to well above 50 percent. Nevertheless, in the last 10 years, banks from West Germany, Switzerland, Scandinavia and the United States have come to Luxembourg to take advantage of some particular feature of the country's banking legis-

Restrictive banking rules at home also have persuaded banks from Switzerland and the Nordic countries to set up shop in Luxembourg. The Swiss authorities clamped down on international capital transactions several years ago, forcing many Swiss banks to look for new ways to channel their funds outside the country. By far the major part of Swiss business now carried out in Luxembourg is the directing of fiduciary funds toward local money markets. The Scandinavians, too, faced with restrictions on international financing for domestic clients, decided that Luxembourg offered the ad-

vantages they were seeking.

Although noted mainly for business on the international markets. the Grand Duchy is also important in retail banking. Belgian customers have found Luxembourg a refuge from the tax inspector because of its rules on banking secre-

During the last year or so, there has been a dramatic slowdown in

THE CURRENCY Luxembourg franc Currency units per U.S. dollar, June 198138.65

the number of banks seeking authorization from the Banking Commission to set up offices. One reason for this is the change in the climate for international banking. Many banks have seen profits plummeting in the last two years because of fluctuations in exchange rates and a narrowing of lending margins in international transactions. Furthermore, there does not seem to be much chance that the problems will disappear, as both the European Economic Community and various national governments are now working on measures that would tighten supervision on foreign banks in the

Grand Duchy. EEC banking rules have not had any major effect until now on banking in Luxembourg because they have concentrated on making easier for banks to set up and carry out business in other EEC countries. But the long-term aim of the European Commission in Brus-sels is to harmonize banking regu-lations throughout the EEC, and a central part of this strategy is to increase the transparency of bank

A proposal for aligning the an-nual accounts of banks was made earlier this year by the European

Commission, and this should be followed - although probably not for a couple of years - by a more important draft directive aimed at forcing EEC-based banks to con-

solidate their accounts. Such a

measure would throw open the

books of most of the foreign banks

with operations in the Grand Du-

chy, and the Luxembourg delega-

tion at the EEC would be unlikely

to support such a move. Reports of

progress on a similar proposal for

ordinary companies have been accompanied by allegations of footdragging by officials from the Grand Duchy.

Moves being considered in a number of European countries might not be so slow to take effect. The West German Bundesbank has been pressing during the last few years for increased regulation

of the Euromarket, particularly in Luxembourg. The popularity of the Deutsche mark in Eurocurrency transactions and the unprecedented upsurge in business on the Euromarkets can cause problems for the West German central bank in its efforts to control the money supply, regulate interest rates and control inflation.

Therefore, the Bundesbank is ex-

amining the possibility of altering

West German credit laws in a way that would force banks to consolidate their accounts. Subsidiaries would then be subject to the same credit ratios as the parent company, which would require West German banks to make considerable cash injections into their Luxembourg subsidiaries.

Similar moves are being considered by Switzerland and, with Swiss capital ratios far less generous than those in Luxembourg, many Swiss banks in the Grand Duchy could be forced to reduce substantially their operations on the money markets.

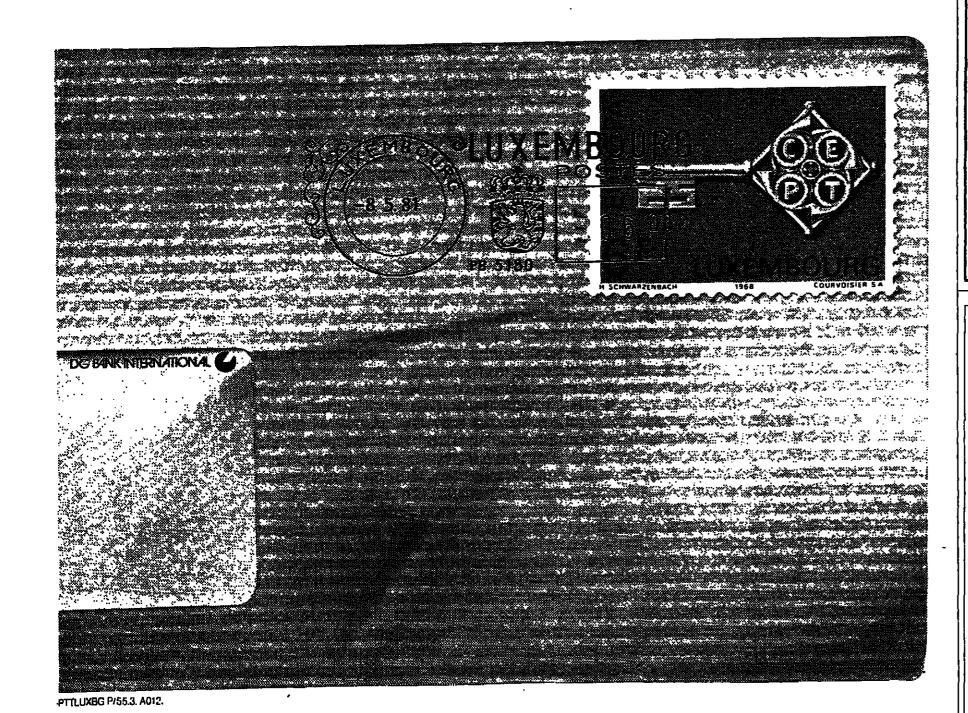
Concerned by these trends, Luxembourg is trying to increase the range of financial activities it can offer. A key move was the abolition in 1979 of the value added tax on gold transactions. Several months later, when frenzied activity in gold dealing caused Switzerland and West Germany to raise their taxes on the metal, Luxembourg's position in the gold market was considerably strengthened. The country has had its own gold fixing since March, 1981, and, although it is far from being a major trading center, business is increas-

The boom for Luxembourg banking is certainly over, as most of the banks likely to consider moving in have already done so. Regulations imposed outside the Grand Duchy may even force some banks to leave. Nevertheless, Luxembourg is determined to hold on to the benefits brought by the influx of foreign banks.

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ASSETS IN EUROCURRENCY FOR THE BANKS IN BRITAIN, LUXEMBOURG AND SWITZERLAND 691,3* 384,8* 502.0* 305,3* . 258.1* USD Billions 300 250 200 150 100 50 1979 Total amount for the European reporting countries: Federal Republic of Germany, Belgium, France, Italy, Luxembourg, Netherlands, Unifed Kingdom, Sweden, Switzerland and since December 1977 Austria, Denmark and Ireland United Kingdom Switzerland

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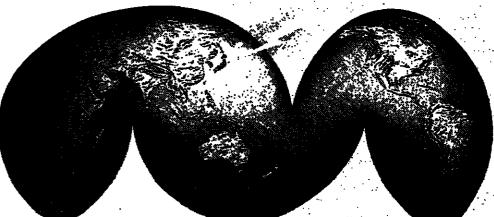
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RG.—Herald Tribune-INTERNATIONAL

Wednesday, June 24, 1981 * *

BUSINESS NEWS BRIEFS Ottawa Plan

AMC Says New Jeeps to Appear on Schedule United Press Internations DETROIT - American Motors Corp. insists its plan to introduce a

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lightweight, fuel-efficient line of Jeep vehicles in the 1983 model year is on schedule. AMC on Monday described as "untrue and misleading" a report in a metal trade publication that the program has fallen at least six months behind schedule. The Metalworking News edition of American Metal Market said the delay was caused by cash shortages.

The AMC statement said. "There is no problem restricting introduction of the vehicles on schedule." AMC, which is 46-percent-owned by France's Renault, also plans to introduce a small, front-wheel passenger car along with the new Jeep vehicles.

Telefunken Expects to Trim Losses in 1981

WEST BERLIN — AEG Telefunken expects its losses in 1981 to be narrower than the 1980 deficit of 278 million Deutsche marks posted by the domestic group. Managing Board Chairman Heinz Duerr said Tues-

He told the annual meeting that the group is not yet "out of the woods." Turnover and order levels are expected to rise this year, although at a slower rate than in 1980, with the majority of the increases coming from abroad.

Japanese Vehicle Production Fell in May

TOKYO — Japanese vehicle production fell 1.3 percent to 894,554 units in May from a year earlier and was down 9.8 percent from April levels, the Japan Automobile Manufacturers Association said Tuesday. Exports in May are thought to have risen about 5 percent from the year-earlier 498,000, reflecting strong sales to developing countries, the association said. Export figures will be announced later this week, it

Domestic vehicle sales declined sharply in the month due to an increase in taxes last month, the association said. It had reported earlier that domestic sales in May fell 15.9 percent to 272,456 from a year earlier and were down a sharp 24.9 percent from the previous month.

Gulf Canada to Build Beaufort Drilling Sites New York Times Servi

CALGARY, Alberta, - Gulf Canada Ltd. said Monday that it would spend 674 million Canadian dollars (\$559.3 million) to build and operate a year-round drilling system for the frigid Beaufort Sea, estimated to hold reserves of some 6 billion barrels of oil.

Gulf Canada, a 60-percent-owned subsidiary of the Gulf Oil Corp., said that it would build two offshore drilling platforms, two icebreakers and two supply vessels to begin a drilling program on 1.5 million acres of the sea in the summer of 1983.

Gulf Canada said that it was soliciting bids for construction of the units and would partially finance the program by a \$200 million deben-

Cycles Peugeot, Honda Deal Expected The Associated Press

PARIS - Cycles Peugeot is expected to announce Wednesday an accord with Honda of Japan to produce motorcycle engines in France under license, industry sources said Tuesday.

A Peugeot spokesman said Cycles Peugeot will announce an outline agreement with "a foreign manufacturer" but declined to give details. The sources said the agreement would involve the construction by Peugeot of motorcycles with engines larger than 125 cubic centimeters.

Eurobond Prices Ease, **New Issues Announced**

LONDON - Prices on straight dollar Eurobonds eased slightly Tuesday as the volume of new business picked up. Dealers noted that operators were still cautious over the short-term trend of U.S. interest rates despite being encouraged by the Federal Reserve's deciion to add funds to the system

In addition to the new deals an-Tuesday after managers increased the size of the offerings.

Lead managers had noted strong demand for both issues and dealers added that most of the recent crop of new issues had been received well by retail clients in the

The World Bank bond was increased to \$500 million from the initially indicated \$400 million. nager Deutsche Bank said. It was sold at a price of 98% bearing a coupon of 14% percent to yield 14.82 percent but traded at

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Pacific Lighting Gas Supply's eight-year Eurobond was increased to \$65 million from the mitially indicated \$50 million, lead manager Morgan Stanley said, and was sold at par bearing a coupon of 15%

In the new-issue market, Ford Credit Overseas Finance NV is floating a \$150-million, four-year note issue at par bearing an annual coupon of 16 percent, lead mana-ger Goldman Sachs said Tuesday. Guaranteed by Ford Motor Credit Co., the notes are first callable at

par on July 1, 1984. Natomas Overseas Finance NV. a unit of the U.S. oil company, is raising \$50 million through a fiveyear offering managed by Swiss Bank Corp. The indicated terms are a courpon of 15% percent and

Trizec Corp., a North American property firm, is raising \$40 million through a five-year bullet issue managed by Merrill Lynch bearing a coupon of 16 percent The issue price will be set June 30. In the Deutsche-mark sector, Renault Acceptance BV is seeking 150 million DM through a private placement of five-year bonds managed by Deutsche Bank bearing a coupon of 10% percent and priced at 99% to yield 10.82 percent.

The dollar, which had eased on European foreign exchange markets in the wake of the easing in short-term interest rates, recovered in later trading in New York. The dollar was sold down as the federal funds rate dropped during the morning, but positions were reversed following Federal Reserve action to drain reserves from the banking system, which put upward

pressure on overnight money.

The dollar was quoted at 2.3565 DM at midday in New York against early lows around 2.3500 DM and against Monday's closing of 2.3525 DM.
Elsewhere, the coupon on the

15-billion Euroyen issue for New Zealand has been set at 8% percent. The 61/2-year Eurobond is being offered at par.

Bonn's Program For Investment Is Under Way

FRANKFURT - The first credits under West Germany's 6.3 billion-Deutsche-mark investment program have been awarded, a spekesman for KFW, the reconstruction loan corporation, said

KFW has raised 1.2 billion DM in lendable funds so far, all from overseas investors, and has given approval to about 1 billion DM of

Ioan applications, he said.

About 2,000 West German companies have applied for the credits iotaling more than 2 billion DM, he added. The program is designed to promote investments in energy saving, new industrial equipment

and advanced technology.

The spokesman said the Saudi Arabian Monetary Agency has agreed to provide 400 million DM in funding for KFW, making it the largest investor in the new program. Other major investors have included Swiss and Luxembourg banks, he said.

The loan program, which carries an interest-rate subsidy from the Bonn government, was originally envisaged as a joint French-German project. But the government of Valery Giscard d'Estaing pulled out of the project after his defeat in the French presidential election.

CURRENCY RATES

interbank exchange rates for June 23, 1981, excluding bank service charges.

Amsterdam Brossels (a. Frankfur! Loaden (b.) Allian New York Paris Zurich	38.54 2.3515 2.002 1.174.55 ———————————————————————————————————	5.244 77.1775 4.704 2,349.40 1.9955 11.325 4,9878	D.M. 111.24 * 16.376 4.7158 498.42 0.4233 237.98 * 86.8051 *	F.F. 46.31 - 6.8153 41.72 - 11.3463 207.45 0.1762 	1,2895 ° 2,009 x 2,350.25 ————————————————————————————————————	04dr. 	8.F. 6.797 - 6.11 - 77.17 20.626 6.024 14.661 - 5.2961 -	5.F. 128.57* 18.7045 115.95* 4.97 574.85 0,4901 277.28*	D.K. 25.37 • 5.2225 31.67 • 14.7798 158.60 0.1354 76.45 • 27.6827 •	
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On Energy Is Expanded

Second Bill Outlined In Self-Sufficiency Bid

By Henry Giniger

New York Times Service OTTAWA - The Canadian government has taken another major step to carry out its controversial national energy program by intro-ducing what it calls an Energy Security Act into the House of Com-

In an apparent effort to show that the government is flexible, the legislation was presented Monday in draft form for discussion during the summer. After hearing comments from interested parties, the act will be put into final form for action in the fall.

The Energy Security Act is the second and last major bill designed to put into effect the government's energy program, which was announced last October. The first bill, dealing with exploration and development, was introduced earlier this year. The legislation intro-duced Monday deals with other major details of the program.

The energy program seeks to make Canada self-sufficient in energy by 1990, to increase the federal share of oil and gas revenue and to reduce control over oil and gas production by foreign companies, which now predominate, to no more than 50 percent.

Marc Lalonde, the minister of energy, indicated his determination to move ahead with what is known as "Canadianization" of the industry by rejecting criticism made last week before a House subcommittee in Washington by U.S. businessmen who complained of discrimination.

Mr. Lalonde said that "we are not breaking any international agreements." The minister added, however, that "it is true that the allowances" for oil and gas exploration "are higher for Canadian companies than for foreign ones."

70% Foreign Owned

The minister said that "the United States would not tolerate the situation that we have known in Canada for 40 years," adding, "It would not accept 70 percent ownership of the oil and gas industry by foreign interests."

Parliament is now considering the first bill, covering development of oil and gas on federal lands, including offshore areas, the Northwest Territories and the Yukon.

The Canadian Association of Oil Well Drilling Contractors has called the first part of the program "a disaster" because no agreement has been reached with the province Canada's oil and gas is produced, on revenue sharing from energy production. Newfoundland, where most of the offshore drilling sites are located, is also in disgreement with Ottawa on ownership and control of the wells.

The legislation introduced Monday provides for a new system of incentives to replace depletion allowances and is aimed, according to the Ministry of Energy, "at stimulating massive new invest-ments, particularly by Canadians." A special incentives board is being organized and will be authorized to pay up to 80 percent of exploration expenses depending on the degree of Canadian ownership.

A Petroleum Monitoring Agency, which is already in existence, will have the power to certify the rate of Canadian ownership and control for companies that apply for incentives. It will require, for example, that there be 50 percent Canadian ownership for any com-pany that seeks a production li-cense on federal lands.

The agency will also be empowered to obtain, on "a regular basis," information on the sources and uses of funds by any company that has more than 10 million Canadian dollars (\$8.3 million) in oil and gas revenue or 5 million Canadian dollars in assets.

Credit Being Planned For Egypt's Defense Reuters

ZURICH - Foreign banks in Switzerland are putting together a loan of 600 million Swiss francs (\$291.5 million) for Egypt to buy an air defense system, banking sources here said Tuesday.

The system, which would be installed on Egypt's border with Libya, is to be supplied by Contraves Italiana, an Italian subsidiary of the Swiss arms and civil engineering company, Oerlikon-Bührle. The credit, larger than those usualseen on the Swiss capital market, has not yet been negotiated in all its details, because the contract for the equipment purchase is not final, the sources said.

> Foreign Exchange Problems?

Having foreign exchange problems that cannot be handled through normal banking channels? Contact Deak-Perera, Box D1776 , Herald Tribune.

92521 Neuilly Cedex, France. Deak-Perërii

French Executives Shrug Off Socialist Win

By Paul Lewis

New York Times Service PARIS - The French business community

welcomed Sunday's sweeping Socialist victory in the parliamentary elections with a Gallic shrug of resignation.

"We knew what was coming and it has come." said a spokesman at St. Gobain-Pont-a-Mousson, the diversified French engineering and electronics group that figures prominently on the Socialist Party's list of nationalization targets.

Indeed. France's industrial leaders have said little about the Socialist economic program. If it had not been for anxious questions at shareholder meetings in May and June, most of the leaders would have made no public comment. Privately. French businessmen offer three

reasons for their low profile. Limited Effort Seen First, many believe that President Mitterrand wants to wriggle out of a lot of his economic promises, realizing their dangers, and

they do not want to make the task more dif-

ficult by attacking him openly.

One widely discussed scenario foresees the Socialists nationalizing the troubled steel companies, some armament makers that de-pend on government contracts anyway, and perhaps a big private bank. But no more. At the same time, business expects the govern-ment to tone down plans for higher social benefits, arguing they would make business uncompetitive by increasing industrial costs.

A second reason is that much of private

industry and banking is practically nationalized anyway. Big companies are usually run by former senior civil servants who have 'parachuted" into the private sector, but who keep close personal ties with the admin-

Major investment decisions, takeovers and restructuring plans are all quietly cleared with the government under a system that the French sociologist Christian Stoffaes describes as "informal mutual persuasion." The third reason is that much of industry

has traditionally liked protectionism, government direction and a weak franc. And that is what the Socialists seem to be offering. Most businessmen have contented themselves with raising technical objections to the

Socialist proposals. For Roger Martin, hon-orary president of St. Gobain, the ownership of a company is a "minor" matter, provided it is allowed to obey the disciplines of the marketplace. Pierre Moussa, head of the Banque de Par-is et des Pays-Bas, feels that being nationalized will complicate relations with foreign private banks and give foreign banks in France, which the Left plans to spare, an un-

fair advantage. Many executives simply argue that nationalization is unnecessary, because they are al-ready doing the best they can. "How could

the state hope to do better?" asks Philippe Thomas, head of Pechiney, the French aluminum giant targeted for nationalization.

BUSINESS/FINANCE

Reflation Plan

So far, France's new leaders have moved cautiously. Increases in public expenditure are being more or less covered by new taxation, leaving France's budget deficit this year as one of the smallest in Western Europe, and the minimum wage was increased by less

In addition, the promised reduction in the workweek to 35 hours, and the addition of a fifth week of paid vacation are to be "negotiated" between unions and employers. The government still says, however, that it is committed to plans to reflate the economy next year by raising real disposable income by some 3 percent.

Such a plan to stimulate the economy, according to a study by Chase Econometrics, is likely to result in growth of 1 or 2 percent this year and more than 4 percent next year, raising inflation to more than 15 percent a year and increasing the trade deficit.

The study says that although 300,000 new jobs might be created, unemployment would only be held at its present 1.7 million workers because of the growth of the labor force.

Eventually, inflation and the widening trade gap would bring about another reces-

sion, as happened in Sweden when it tried to spend its way out of the 1975 recession. Chase Econometrics says.

U.S. Prices **Rose 0.7% During May**

Increase Over Year Dips to Single Digits

From Agency Dispatches
WASHINGTON — The U.S. in flation rate climbed 0.7 percent in May, or an annual rate of 8.4 percent - completing the first threemonth string of single-digit in-creases since the spring of 1978, the Labor Department said Tues-

The latest Consumer Price Index figures show the inflation rate for the past 12 months stood at 9.8 percent. The last time the inflation rate was at that rate for a year was in February, 1979.

The May increase compares with 0.4 percent in April and 0.6 percent in March.

The department also said real spendable earnings — after taxes and after adjusting for inflation dropped 0.4 percent in May for an average married wage earner with three dependents.

Real spendable earnings were down 2 percent from May, 1980. The major influence forcing prices up in May was the increas-

ing cost of financing and purchas-ing a home, which accounted for four-fifths of the increase. "Double-digit inflation as a pheomenon is behind us," Murray Weidenbaum, chairman of the Council of Economic Advisers.

said Monday before the figures The Reagan administration is predicting a 10.2 percent inflation

rate for the year. Donald Ratajczak, director of the Economic Forecasting Project at Georgia State University, is another \$245 million for Conoco's predicting consumer prices will rise 8.5 percent.

The Consumer Price Index for May was 269.0, which means it cost \$269.00 in 1981 dollars to buy the same amount of goods retail Food prices went down 0.2 percent in May and grocery store prices fell even more, by 0.5 percent.

Denmark Reports Deficit

trade deficit widened in May to 1.38 billion kroner (\$185 million) from a deficit of 1.28 billion kroner in April, the Statistics Bu-reau said Tuesday. The deficit in the first five months was 5.32 billion kroner, down from 7.56 billion kroner in the year-ago period.

Dow Climbs Seagram Sets Purchase of Conoco Stock ter of its stock for as much as \$2 Over 1,000 STAMFORD, Conn. - Seagram Co., the large Canadian distiller. intends to buy "a number of com-mon shares of Conoco Inc., possi-bly as much as 25 percent of the Stamford-based oil company. On NYSE

Seagram,

many shares.

Conoco said Tuesday.

Conoco spokesman Vince Ro-bertiello said the company

received written notice Monday of

the planned stock purchase from Joseph E. Seagram & Sons Inc., a New York-based subsidiary of

Seagram's notice said it "in-

tends, depending on future devel-

Conoco common shares, although

it did not specify how many. A

Seagram spokesman said his com-

pany already owns some Conoco stock, but he declined to say how

Federal law requires notification

to the Federal Trade Commission

and the Department of Justice of

plans to buy within 30 days at least

10 percent of a company's com-

Just last week Conoco disclosed

that its directors had rejected a

proposal by "a major foreign cor-

poration" to buy about one quar-

S. G. Warburg & Co. Ltd.

Bank of Tokyo International

National Bank of Abu Dhabi

American Express Ban

Dillon, Read Overseas Corporation

opments, to acquire a number of

From Agency Dispatches
NEW YORK — The Dow Jones industrial average broke through the 1.000 level Tuesday as investors turned optimistic following a drop in short-term interest rates. Trading was moderately active.

The Dow average, which was down a point at the outset following Monday's 1.99-point loss, closed up 12.46 at 1,006.66. Advances led declines, 898-507. among the 1,908 issues traded on

The NYSE volume was 51.84 million shares, up sharply from the 41.97 million traded Monday. Prices were mixed in moderate trading of American Stock Ex-

the New York exchange.

Analysts said investors were encouraged that federal funds rates banks charge one another for overnight loans were down significantfrom Monday, even though the Federal Reserve stepped in to pre-vent a further slide.

Fed funds fell sharply in early trading Tuesday to 1614 percent from 171/2 at the opening. Although the decline was greater than antici-pated, dealers were surprised by the Fed's move to drain reserves with two-day reverse repurchase agreements because it had added reserves both Monday and Friday. Money market analysts noted

that although the Fed's action to drain reserves in the same state ment week in which it added was not unprecedented, it was highly unusual The Fed's allowing the federal funds rate to rise thwarted a move

by banks to lower their prime lending rate, which now stands at 20 percent. Analysts are hopeful the prime will fall again. Wall Street also was encouraged that Chase Manhattan, Marine Midland, Bankers Trust and Chemical Bank cut the rate they

charge brokers for loans a full

point. This rate has been rising

and falling almost daily for more than a week. Some institutions are adjusting their portfolios for the third quarter, a trend making it difficult to get a clear picture of the market's

In corporate news, the board of Canada Cement Lafarge Tuesday authorized an offer of \$45 a share for General Portland. Under the proposal, General Portland would be merged with a Canada Cement Lafarge subsidiary. Canada Cement said the deal is valued at \$315 million.

On the NYSE floor, Digital Equipment won support. A U.S. circuit court of appeals in Boston overturned a ruling against Digital that had charged the company with committing a technical fraud in a patent application.
Schering-Plough was lower. The

company, in a revised forecast, said it expected to report lower earnings for the current fiscal year.



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LONDON: Inn on the Park Hamilton Place - Park Lane London W1 - Tel. 01-409 1844.

53-percent stake in Hudson's Bay Oil & Gas Co. in a \$1.68 billion Japan Panel Urges **Spending Cutback**

TOKYO - An official commission for administrative reform Tuesday proposed extensive Japanese public spending cuts to reduce the budget deficit and to streamline the government.

Commission Chairman Toshio Doko said the proposals, to be officially presented to the Cabinet in mid-July, are designed to enable the government to reduce national bond flotation in fiscal 1982, which starts in April, by 2 trillion ven (\$9 billion) from about 12 trillion this year without increasing

billion. Conoco on Tuesday disclosed that Seagram had made that · At the same time, Conoco said it was engaged in preliminary discussions with "a major corporation

stock closed up 31/8 at \$62 a share

Under the earlier offer, Seagram had proposed to either purchase from Conoco directly 15.9 million looking toward a merger with Conoco." Conoco has not identified that company. shares at \$75 a share and buy an additional 9.6 million shares on Earlier this month, Dome Petrothe open market, or to purchase from Conoco directly 28.6 million leum Ltd. of Calgary, Alberta, bought 22 million shares of Conoshares at \$70 a share. Conoco said co stock at \$65 a share, then it rejected the offer after "exten-sive consideration." Conoco's swapped that holding and added

> In April, Seagram lost its battle to acquire St. Joe Minerals Corp., one of the leading producers of lead and zinc and a major miner of coal. Through its Joseph E. Seagram subsidiary, Seagram had offered \$2.1 billion for St. Joe, which rejected the offer in favor of a \$1.24 billion merger with Fluor

Seagram had set up last December a \$3 billion line of credit with 31 banks to make a "maximum of three acquisitions." That an-nouncement followed the compa-ny's sale of its U.S. oil and gas properties to Sun Co. for \$500 million in cash and \$1.8 billion in

that \$100 purchased 14 years ago.

COPENHAGEN — Denmark's

All these securities having been sold, this announcement appears as a matter of record only.



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NYSE Nationwide Trading Closing Prices June 23

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last dividend meeting. k—Detatred or paid this year, on accumulative issue with dividends in arrears. n—New issue, r—De-clared or paid in preceding 12 months plus stock dividend, i—
Paid in stock in praceding 12 months. estimated cash value on ex-dividend or ex-distribution date.

Portugal Lowers Economic Sights

ence of the Organization for Eco-

ment in Paris earlier this month

by Richard Wallis

LISBON - Six months after coming to power predicting an economic miracle, the Portuguese government has scaled down its economic targets for the year, putting the blame mostly on the world

A revised 1981 government plan unveiled this month anticipates a record balance of payments deficit this year and sharply lower growth. It is even gloomier than the government's most pessimistic expectations outlined in a preliminary forecast last March.

The government, faced with a barrage of questions about what has gone wrong, replies that a strong dollar is pushing up the cost of Portugal's food and oil imports and that the world recession means more and more countries are closing their doors to Portugal's traditional exports, such as textiles.

It also cites a severe drought earlier this year, which meant Portugal had to import \$400 million worth of extra energy to compensate for cuts in its hydroelectric power production.

pected. Although the harvest will be down on last year, it will be bet-ter than that of 1979, according to latest official forecasts. Finance Minister Joso Morais

By George Short

LONDON - The Bank of Eng-

land Tuesday announced what it called a further step in the evolu-

tion of tactics aimed at controlling

the growth of the money supply,

which the government sees as the

key to curbing inflation.

The central bank published a draft plan for improving its techniques of controlling the money supply and set Aug. 20 as the provisional data for beinging the sus-

visional date for bringing the sys-

The moves will abolish the re-

tem into force.

But the effect on agriculture has not been as bad as originally ex-

meet its balance of payments and inflation targets. The latest forecast for the 1981 balance of payments is a record \$1.7 billion deficit wider than last

year's \$1.3 billion deficit. The new 1981 payments deficit forecast is \$500 million above the original government target, whereas the 1980 figure was double that pre-dicted by the previous govern-ment. In 1979, the payments deficit was a mere \$34 million.

Anibal Cavaco Silva, former finance minister and now head of the National Planning Council. an advisory body to the government. believes the steep rise in the deficit last year reflected a sharp increase in private and public investment that led to an 11-percent rise in im-

One target the government has not altered this year is its goal of keeping the rise in inflation to 16 percent, after the 16.6 percent rate last year and the 24.2-percent level

It is to meet this target in spite of falling exports that the domestic growth rate is being cut to 2.9 per-cent this year. In 1980, Portugal recorded a growth rate of 5.8 per-cent, the highest of any OECD country, according to latest central Leitao told a ministerial confer- bank estimates.

quirement for banks to keep a cer-

tain ratio of reserves to assets, which was aimed at making sure

that banks did not overextend themselves. This will be replaced

by a more flexible system of con-

trol, including spot checks, the

Controlling the money supply is a central feature of the monetarist

anti-inflation policies being fol-

lowed by Prime Minister Margaret

Mrs. Thatcher has come under

criticism from experts who have

said her government has not con-

trolled the money supply rigorous-

Thatcher's government.

Montreal Stocks

Closing Prices, June 22, 1981

Total Sales 551,068 shares

Canadian Indexes

June 23, 1981

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Last March the government nomic Cooperation and Develop- forecast gross domestic product would grow this year by a mini-mum of 3.5 percent and a maxithe strong dollar was making it ex-tremely difficult for his country to mum of 4.8 percent, depending on whether the international outlook was favorable or not for Portugal.

A major concern to the government is that any greater rise in inflation, and particularly production costs, would price Portuguese exports out of world markets. In that case the only way to compensate would be to devalue the escudo, Finance Ministry experts said.

Portuguese exports grew 9 per-cent last year but are now only expected to rise 4.8 percent in 1981. The government's original target. based on an optimistic scenario. was for 7-percent growth in both exports and imports this year.

To keep Portuguese goods competitive abroad the government is trying to secure a 16-percent ceiling on wage rises this year, but the finance minister has complained that wage settlements are averaging nearly 21 percent in spite of indirect controls by the govern-

But the government insists it is sticking to the goal of 5-percent annual growth it set in its 1981-84 economic plan, although it says it would be absurd to reflate the economy at an artificially high rate in a year when external factors are so heavily weighed against Portu-

ly enough, despite public spending cuts and high interest rates. As-sessments at the end of last year

showed that money-supply growth had been more than 20 percent,

Financial experts see the new

measures as part of a gradual

move towards abolishing the Bank fo England's minimum lending

rate, which sets the base for all do-

lead to an era of more market-re-

lated interest rates, but they noted

that the Bank of England has said

it wants to avoid the volatility of interest rates that has become the

hallmark of open money-market

The volatility of U.S. interest rates, resulting from moves by the Federal Reserve to tighten its short-term control of the money

supply, has brought criticism from Europeans, who complain that high rates keep their curren-cies under pressure.

Output Off 1.6%

France Reports

reported Tuesday.

6.6 percent in March.

operations in the United States.

Banking sources said it could

twice the targeted figure.

mestic rates.

To Maintain **Oil Prices**

No Policy Changes, African Nations Say

United Press Internations

ALGIERS - OPEC's African members said Tuesday they agreed at a special meeting to maintain their crude oil prices and rejected what they said were efforts by oil companies to drag down prices. Energy ministers of Algeria, Li-

bya and Nigeria and Gabon said in a communique that they "unani-mously decided to respect OPEC decisions and to preserve the unity of that organization" at a Monday meeting in Hassi Messaoud, an oil area in southern Algeria.

The meeting came amid reported efforts by Saudi Arabia to sell OPEC's cheapest crude at prices under the kingdom's official \$32-abarrel rate.

The African members of OPEC will take all necessary measures to support the present price structure and act in accordance with OPEC decisions taken at the last meeting in Geneva," the communique said. Last month the Organization of Petroleum Exporting Countries agreed to freeze its base price at \$36 a barrel and to permit Algeria. Libya and Nigeria to maintain its prices at \$40-41 a barrel. Sandi Arabia, which produces 40 percent of OPEC's oil, vowed to keep its crude at \$32 a barrel.

International oil companies, which are engaged in pricing talks with OPEC's North African producers, have said they are seeking price cuts of \$5 to \$6 a barrel because North African oil is overpriced in the glutted world market.

Soviet Price Cut

HELSINKI (Reuters) - The Soviet Union has cut the price of its crude oil exports to Finland by to 8 percent following talks in Moscow, a spokesman for Finland's state-owned oil-importing

company said.

He did not give any precise figures, but market sources said the new price would be roughly \$35.50 a barrel, down from about \$38.50 previously. Finland annually im-ports about 49 million barrels of Soviet crude under a long-term trade agreement.

COMPANY REPORTS

Revenue and profits, in millions, are in local

currencies unless otherwise indicated. PARIS - France's industrial production fell in April and its United States current-account deficit widened in General Tire & Rubber the first quarter, the government 22.67 0.93 production declined an adjusted 1.6 percent after a revised 4.1-per-1st Half 1981 cent rise in March, the National 24.79 1.02 Statistics Institute said. April pro-4.37 loss duction was 8.1 percent lower than the year-ago month, compared Levi Strauss 1980 673.6 52.30 1.25 with a revised year-on-year fall of 1987 686.1 34.60 0.83 The current account showed an adjusted deficit of 10.1 billion francs (\$1.8 billion) in the first 1988 1,280. 301,60 2,42 quarter. This compared with an upward revised deficit of 8.98 bil-72.90 1.75

1980

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lion francs in the 1980 final quar-ter and a deficit of 10.7 billion Food Fair francs in the 1980 first quarter, the Profits .. Per Shor Economics Ministry said. **Eurocurrency Interest Rates**

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European Stock Markets June 23, 1981



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Commodity Indexes

Floating Rate Notes

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BNP 51-85/88
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The "International Executive Opportunities" Tuesdays, Thursdays

FASHION

New Index : 574.54 ; Previous : 571.52 Nikkel-DJ index : 7,705.41 ; Previous :

SUGAR AUS Oct Nov Dec Mor May Jiv Aus 760 lots o CDCOA Jiv See Occ Mor Mor May Jiv 23 lots of

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London Metals Market

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International Herald Tribune We're got news for you.

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Dividends

INCREASED

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Per. STOCK SPLITS

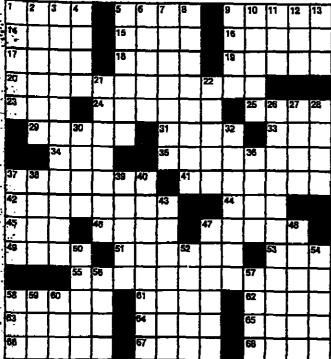
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New Highs and Lows

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ACROSS

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24 Cruise port 25 Where the poetic harp hangs mute 29 Madras, e.g. 31 Gold medalis

33 When to break a bad habit 34 Mar.'s 35 Kinsman 37 Pirate from .Barbary 41 Leaves high

and cry 42 Mathematics and biology 44 "The End is Yet"
45 Native: Suffix 46 Teacher's

concoction 47 Hem in WEATHER

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FRANKFURT GENEVA

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JERUSALEJ LAS PALMAS

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ALGARYE ALGIERS AMSTERDAM ANKARA ATHENS AUCKLAND BANGKOK

53 Monogram of Emerson or 55 Type of fiddler

58 Subject 61 Eden's-62 Big burden for a bandsman 63 Ekberg 64 Loyal to

'Bonnie Bruce" 65 Out and splice 66 Impressionist Edouard 67 Makes a fluff 68 "Take

DOWN I U.S. artist Reginald: 1898-1954 2 Becomes lessened
3 People in a cabinet 4 Bern-born

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30 Area in St. 32 Heavyweigh champ: 1933-34 36 Tourist center in the Southwest 37 Army V.I.P.'s

38 Prefix for chord or meter 39 Bakery employees 40 Bed down in a

new home 47 Palms with orange fruits 48 Cheap, in slanguage

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ADVERTISEMENT INTERNATIONAL FUNDS

- June 23,1981								
* The net occet value quotations shown b	4) , (70) slow are supplied by the Funds listed with							
The net asset value quotations shown be the exception of some lunds whose quote marginal symbols indicate frequency of ty; (w)—weekly; (m)—monthly; (b)—bi-m	s are based on issue prices. The following							
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	Other Funds							
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(d) Boerbond SF 705.70 (d) Conbor SF 800.00 (d) Grobor SF 957.00 (d) Stockbor SF 1,101.00	(w) Trustcar Int. Fd (AEIF) \$9.11							
— (d) Grobar	(w) Bandselex - Issue Pr SF 119.45							
	(w) CAM1T,							
BANK VON ERNST & Cle AG PB 2622 Bern — (d) CSF Fund	(w) Citadel Fund\$8.85							
— (d) Crossbow Fund SF 7.38 — (d) ITF Fund N.V 5 14.03	(m) Cleveland Offshore Fd							
	(b) COMETE							
_ BRITANNIA TRUST MNGT.(CI) Ltd.: — (w) Universal Growth Fund 1,255c _— (w) High Interest Sterling £77.60xd	(w) Convert. Fd Int. 8 Certs \$ 18.83							
	(d) Cortexo International							
CAPITAL INTERNATIONAL:(w) Copital Int'i Fund	(w) Data Force Intt \$1.25							
— (w) Capital Int'l Fund	(w) D.G.C							
	(d) Dreyfus Fund Int7 \$26.91 (w) Dreyfus Intercontinent \$33.11							
CREDIT SUISSE:	(d) Europe Obligations LF 1,483.90							
— (d.) Conosec	(d) Energy Intl. N.V							
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(w) G.Y. Asia Fund,	(w) Jopan Pacific Fund \$66.12							
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- (d) G.T. Japon Small Co Fund. \$16.82	(d) Kleinwort Benson Int. Fd \$ 17.52 (w) Kleinwort Bens, Jap. Fd \$ 49.64							
_ (d) G.Y. Technology Fund \$31.48	(w) Leverage Cop. Hold \$115.42							
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- (d) Amco U.S. Sh	(d) World Equity Grith, Fd \$455.88							
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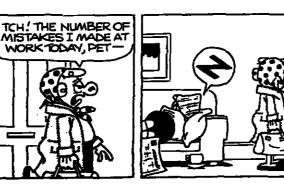




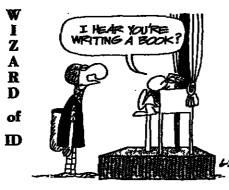










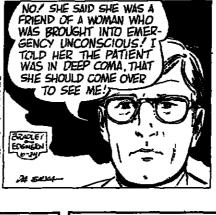










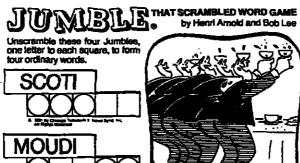






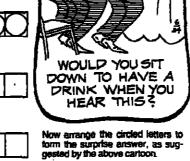






LUPPER REBAYT

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Imprimé par P.I.O. - I, Boulevard Ney 75018 Paris

DENNIS THE MENACE



I LIKE YOUR REGULAR OLD FACE BETTER."

BOOKS

THE MAPMAKERS

By John Noble Wilford. Illustrated. 414 pp. \$20. Knopf, 201 E. 52d St., New York 10022.

Reviewed by Christopher Lehmann-Haupt

DESPITE everything, we were all a little amazed. First John H. Glenn, when he looked down and saw the whole state of Florida" near the end of his Earth orbit in 1962; then subsequent astronauts; then the rest of us when we saw the first photography from space - we were all a little amazed. The Earth looked just like a map; they had gotten it right! And though even the dumbest among us knew the approximate answer when we stopped to think about it, there was part of all of us that exclaimed: How did they know? How on earth did they know?

That is the question John Noble Wilford tries to answer comprehensively in "The Mapmakers." How did they know? The answer, of course, is basically triangulation, or the surveying technique of establishing the relative position of the apex of a triangle by measuring the length of the baseline and the angles to the apex.

But there was more to it than that. There was the job of establishing such first principles as the notion of com-prehending and measuring the uni-verse and of representing it on a map. As usual, the Chinese got good at it first, but the Greeks worked it out for Western purposes. A second-century (A.D.) Egyptian named Claudius Ptolemy helped too, even if he did think the Earth was the center of the universe. Also useful was a 16th-century German named Gerardus Mercator, who squared the circle by figuring out a way to project the spherical world onto a flat surface.

Then there was the donkeywork exploring, discovering and surveying, endlessly surveying. Men died surveying, and also got mosquito-bitten. The rest of the story is pretty much technology — progressing from a wheel whose revolutions you counted so as to measure distance, to a laser beam bounced off distant mirrors at calculable intervals of time. That's the story of mapmaking in a nutshell.

Wilford, who is science correspond-ent for The New York Times, where he has covered all the major space ex-

Rome Weighing Plan to Excavate Forum Complex United Press Intern

ROME — A proposal to excavate sections of five Roman imperial forums and join them into one archae-ological park is being considered jointly by the city of Rome and the Italian government "This project would allow the pub-

lic to see the whole Roman forum complex as it was before the Middle Ages, to appreciate its unique conti-nuity," said Giulio Carlo Argan, the 72-year-old art historian and former mayor of Rome.

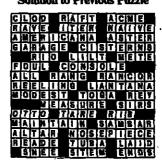
If adopted, the project would require the partial closure of one of Rome's busiest streets, the six-lane Via dei Fori Imperiali, built by Mussolini in 1932. Underneath, archaeologists hope to unearth gardens, malls and gates joining the Roman forum with the imperial forums of Caesar, Trajan, Augustus and Nerva and the Forum of Peace.

The proposed excavation, which would add about 7½ acres to the 150acre forum complex, was conceived by the superintendent of archaeological monuments, Adriano La Regina.

"This project will allow us to change the present situation where many of Rome's ancient and fragile monuments border traffic-congested avenues, causing damaging pollution," he said.
The Roman forum, constructed in a

marshy valley between two of Rome's seven hills, dates from the 3d century B.C. Until just before the Christian era it was the political, social and cul-tural heart of the city, where Romans gathered to celebrate religious festivals, to watch political executions, or barter with merchants.

Solution to Previous Puzzle



plorations, doesn't try to tell the story in a nutshell. Instead, he makes his way at a leisurely and detailed pace. He starts around the time that Eratosthenes, an Alexandrian librarian of the third century B.C., tried to figure out the circumference of the globe from a sundial, missed by only 16 percent, and thus became the father of geodesy, the science of Earth measurement. He ends with the incredible story of the mapping of Mars.

In between, there is something for everybody - gadgetry for the techni-cally avid, the story of the clandestine survey of forbidden Tibet, for admirers of human intrepidness. For collectors of unlikely facts, there is news that there seem to be lakes beneath the antarctic ice sheet, containing water melted by heat flowing up from the Earth's interior. For those who wonder if maps ever lead to discovery instead of vice versa, there is an account how the mapping of the great Mid-Ocean Ridge led to confirmation of Alfred Wegener's theory of continental drift.

My own preference in "The Mapmakers" was for the stories of human perseverance — explorers in the Age of Discovery nosing about for the Northwest Passage; the 18th-century Frenchmen who suffered disastrous expeditions to learn whether Isaac Newton was right in calling the planet Earth an oblate spheroid; the Cassini family, who mapped France and took four generations to complete the job. I got a little bogged down in the later stages of "The Mapmakers," where Wilford takes up such matters as isolines, the difference between geometric and dynamic geodesy, the uses of Doppler positioning and John P. Snyder's mathematical equations for Alden P. Colvocoresses' Space Ob-lique Mercator Projection, known in mapmaking circles as Colvo's Projec-

But these matters will no doubt be meat for anyone who happens to be more interested in where mapmaking is headed than in where it's come from. The way it looks to me is that if the computers and the people who feed them get any more resourceful, they are not only going to provide us with a photograph of the whole Earth — one with all faces exposed simultaneously — they are also going to end up building a full-scale model of the planet. We can probably use one.

Christopher Lehmann-Haupt is on the staff of The New York Times.

Best Sellers

The New York Times This list is besed on reports from more than 1.400 toolstones throughout the United States. Weeks on ist are not necessarily consecutive.

FICTION 1 NOBLE HOUSE, by James Cla-

2 GORKY PARK, by Martin Croz. Smith
GOD EMPEROR OF DUNE, by
Frank Herbert

FREE FALL IN CRIMSON, by John D. MacDonald.... TAR BABY, by Toni Morrison.... THE WHITE HOTEL, by D.M. THE COVENANT, by James A.

Michener

8 XPD, by Len Deighton

9 MASQUERADE, by Kit Williams

10 CREATION, by Gore Vidal

11 REFLEX- by Dick Francis

12 GOODBYE, IANETTE, by Harold Robbins

13 CENTURY, by Fred Mustard

Senser

Stewart 12
14 SIRENS, by Eric Van Lustbader. 13
15 MIDWIFE by Gay Courter NONFICTION

1 THE LORD GOD MADE THEM ALL, by James Herriot NEVER-SAY-DIET BOOK, by

Richard Simmons

THE BEVERLY HILLS DIET, by Judy Mazel

COSMOS, by Carl Sagan

PAVAROTTI: MY OWN STORY, by Usciano Pavaroni with
William Wright.

NICE GIRLS DO, by Irene Kassoria.

SOTIAL YOU CAN NEGOTIATE ANY-THING by Herb Cohen

B THE PRITIEN PERMANENT
WEIGHT-LOSS MANUAL by
Nathan Pritien

9 WEALTH AND POVERTY, by

King

12 DR. ATKINS' NUTRITION'
BREAKTHROUGH by Dr. Roben C. Atkins.

13 MARIA CALLAS, by Arisma. Castaneda
15 CRAIG CLAIBORNE'S GOURMET DIET, by Craig Claiborne
with Pierre Francy

BRIDGE

SOUTH bid strongly in the face of diamond bids by her opponents, and eventually continued to five clubs when her partner contributed a bold raise in that suit. West led a diamond and since the heart finesse was due to win, the defense could not hope to take more than a trick in each black suit. But a funny thing happened when South ruffed the opening lead

EAST.

◆K974

♦ AQ1098

The second secon

♥K97

43

NORTH 485 ♥J1052 **\$10652** WEST (D)

♦Q3 V863 ♦ K J 643 **♣**QJ4

SOUTH **◆AJ1062** ♥AQ4 **AK987**

Both sides were vulnerable. The bid-

West South 1 4 Past Pass 10 Pass Pass 34 Page Pass Paas

West led the diamond four

By Alan Truscott and played the trump ace: West dropped the club queen.
South played spades, surrendering the second round. She ruffed the diamond return, ruffed a spade, led a heart to the queen and ruffed another spade to reach this position:

NORTH **VJ105 ♣** 10 · WEST. EAST VK9 ♦KJ6 ◇Q109 SOUTH PA4 **♦K9**.

South felt sure that the guarded trump jack was on her right, for West would no doubt have ruffed one of the spade leads if she had begun with a doubleton Q-I of trumps. It seemed

sale to take the trump finesse.

When she led the trump ten from dummy, South was hornfied to see East throw a diamond. The contract was down one, and South congratulate ed Past on her fine deceptive defense. "I once read it in the paper," was the modest response.

*Rep

12 li

him into office thought of F!FA-

Aside from the political aspects,

what are the British players doing

Aren't the poor, overworked English league lads supposed to be

down on their knees and desperate

for the meager summer break their

£30,000-a-year limbs crave? Alas,

had they been able to say they are

coachine South African blacks in

the service of intergration and for

financial reward, they would

Instead, especially since most of

them are senior players nearing the

winters of their careers, it would

have been no surprise if authority

Nordic Boot

choice in dealing in the toughest possible way with Norway's inter-

national goalkeeper Roy Amundsen a former wrestler who

last weekend knocked down a re-

ferce and kicked him unconscious.

The referee had attempted to send.

Amundsen off the field and is now

recovering from a slight concus-

Whether it be the verbal abuse

at Wimbledon or the destructive

boot in Norway, sport has a first duty to respect and protect the re-

ferce. It is surely time the players,

no matter what their purses, are

made to perform to the spirit and

letter of the laws. Otherwise they

sion and two broken ribs.

Equally, FIFA will have little

uld

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SLS, IOT-

had wielded its biggest stick.

in South Africa, anyhow?

have deserved sympathy.

Jo-burg.

Lloyd and 3 Primary Rivals Gain Wimbledon 2d Round

From Agency Dispatche WIMBLEDON, England — Chris Evert Lloyd, favorite for the Wimbledon women's singles title, began her bid Tuesday by easily defeating Australian lefthander Chris O'Neil, 6-3, 6-0.

Three of Lloyd's primary rivals for the title also won in straight sets. Hana Mandlikova of Czechoslovakia, seeded No. 2, had the most trouble. She got past Corinne Vanier, a 17-year-old French lefthander, 6-3, 7-5, but showed no visible signs of the back injury that has been bothering her in the last 10 days. Because of the injury, Mandikova had withdrawn from Wimbledon's mixed and women's

Fourth-seeded Martina Navratilova, who won here in 1978 and 1979, downed American Joyce Portman, 6-4, 6-0. Andrea Jaeger, the 16-year-old U.S. prodigy, cruised past Nerida Gregory of Aus-tralia, 6-1, 6-1. Jaeger is seeded

1st Seed to Fall

Mary Lou Piatek of the United States saw to the defeat of the women's singles' first seeded player, beating No. 9 Sylvia Hanika of West Germany, 6-4, 7-5.

Kathy Rinaldi, three months past her 14th birthday, became the youngest winner in the 104-year history of the Wimbledon tennis championships. In a marathon against Susan Rollinson of South

MEN'S SINGLES First Raudd Chris Lewis, New Zeolond, def, Chris Dunk, U.S. 6-7, 7-6, 9-6, 6-4, 6-4; Rosa Cose, Austrolle. def. Rick Faget, U.S., 6-1, 6-2, 6-1; Chris John stone, Australia, def. Craig Miller, Australia, 6-4 6-1, 4-6, 4-6, 6-3; Marty Davis, U.S. der S-6-), 46, 446 6-31 MOETY LIBURA U.S., GR., SCHROMO Gillestein, (Stock, 7-5, 5-7, 7-6, 7-6), John Sodri, U.S., def, Andrew Jorrett, Britoin, 6-3, 6-7, 6-3, 7-6; John Fitzgerold, Austrolia, def. Scott McCain,

U.S., def. Andrew Jorrett, Britoln, 4-3, 4-7, 4-2, 7-4; John Fitzperold, Australia, def. Scott McCoin, U.S., 5-7, 7-6, 4-5, 6-3.

U.S., 5-7, 7-6, 4-5, 6-3.

Proposition of the Communication of the C

67, 62, 62, 62; Brad Drewett, Australi ovotia, 7-6, 4-6, 6-4, 6-Murcus Hocsvor, Czechoslovokia, 7-6, 4-6, 6-4, 6-1, 7-8 of Frontey, Australia, del. Thierry Tulcare, Franca, 4-6, 6-2, 6-3, 6-0; Henri Leconte, Franca, del. Joim Alexonder, Australia, 6-4, 2-4, 6-4, 6-2; Botozs Taroczy, Hungory, del. Anders Jervid, Sweden, 7-6, 6-4, 6-3; Bob Lufz, U.S. def. Dovid Corler, Australia, 6-3, 6-7, 4-6, 6-1, 6-3; Mark Edmondson, Australia, def. Guillermo Vilas, Argenlina, 6-4, 6-1, 1-4, 6-4, 6-7; Carlos Kirmsyr, Brooti, 14, Mark Cox, British A. 1-6-4, 6-7; Carlos Kirmsyr, Brooti, 14, Mark Cox, British A. 1-6-4, 6-7; Called Mork Cox, Britain, 63, 6746, 642, 6748

Moretton, Franca, def. Johns Filtel, 44, 62, 62, 64

Moretton, Franca, def. Johns Filtel, 44, 62, 62, 64

Moretton, Franca, def. Johns Filtel, 44, 62, 62, 64

Moretton, Franca, def. Johnson, New Zeodend, def. 5feve Fenton, U.S., 74, 64, 74. WOMEN'S SINGLES

Mortina Novratilava, Czecheslovskie, def. Javce Periman, U.S. 4-4, 6-9; Ams Hobbs, Brit-jan, der. Iris Riedel-Kuhn, West Germany, 6-1, 6-1; Chris Everi Llayd, U.S. def. Chris O'Nell, Ausradio, 6-3, 6-0; Betsy Nagelson; U.S., &d. Isobelle villiger, Switzerland, 6-2, 6-1; Andrea Jaccer, U.S., det, Nerida Gregory, Australia, 6-1, 6-1; Hano Mandilikova, Czochoslovatka, def. Carlane

7-5, 6-4; Botsy Nagelsen, U.S., def. Isobelle Vii-liger. Switzerland. 6-2, 8-1; Suson Loo, Australia. 5.6-3; Lesile Atlen, U.S. def, Anthrea Cooper, Britdis, 6-1, 6-1; Sharen Wedes, U.S., def, Befin Norton,
U.S. 6-2, 7-6; Mary Loo Pladet, U.S., def, 5-thrid
Hatilto, West Germany, 6-4, 7-5; Kothy Rinoldi,
U.S., def. Sue Rollinson, South Africa, 6-2, 2-6, 9-7;
Wendy Tumbull, Australia, def, Diane Desfor,
U.S., 7-5, 6-3; Eva Platif, West Germany, def, Debble Freeman, Australia, 6-3, 6-3; Tracy Austin,
U.S., def, bed I vo Budarava, Czechoslovakia, 6-0,
6-3, Virginia Ruzici, Romania, def, KathiEsan
Cummings, U.S., 6-3, 6-4; Sondra Collies, U.S.,
6-1, Roste Casais, U.S., 6-3, 6-2; Niina Bohn, Sepden, def, Shacy Margolin, U.S., 6-0, 6-7, 6-3. 5.6-3; Lasile Allen, U.S. def. Anthey Cooper, Brif-

6-3, 2-6, 9-7, after Rollinson had served for victory at 6-5 in the fi-

nal set. After battling for 2 hours and 35 minutes, Rinaldi came off court giggling happily and saying, "This was such an important match to me, because I have always wanted to play at Wimbledon."

Rinaldi, who said she was given a toy racket when she was 4 but "didn't start playing seriously until I was 8," was not the youngest player ever to appear at Wimbledon; Mita Klima of Austria was 13 when she lost a first-round match in 1907. Tracy Austin was 14 years, 6 months old when she beat Elly Vessies Appel during the 1977 Wimbledon.

It was another hot, sunny day and thousands swarmed around the grounds of the All-England Club. The second day of the tour-nament is traditionally ladies' day, but a number of first-round men's singles matches had been left uncompleted from Monday and had to be fitted in.

Vilas Beaten

The dispersal of seeds in the men's singles continued. Mark Edmondson, the big-hitting Australia, upset No. 10 Giullermo Vilas of Argentina, 6-4, 6-1, 1-6, 4-6, 6-3.

That meant only 11 of the original 16 men's seeds made the sec-ond round. Ivan Lendl of Czechoslovakia (No. 4), Victor Pecci of Paragnay (No.11) and Yannick Noah of France (No. 13) were beaten Monday, another, lifth-seeded Gene Mayer, pulled out of

the tournament with a wrist injury.

All eight seeds in the top half remain in contention. With Vilas defeat, only three seeded players remain in the bottom half Americans John McEnroe, Roscoe Tanner and Balazs Taroczy of

Hungary.
Vilas, a two-time quarterfinalist, staged a tremendous comeback after dropping the first two sets. But Edmondson, 72d in the ATP world rankings, regained the initiative. He broke his opponent's serve in the sixth game and held on to his advantage to clinch victory with a sizzling service winner. Lloyd played from the baseline

and treated the center court crowd to an immaculate display of ground strokes. O'Neil, a tall, willowy player, showed more aggressiveness, although to no avail. She went eagerly to the net looking for volleys, but the American, playing from the baseline, passed her re-Mandikova led, 6-3, 4-1, and

appeared headed for a quick victory. But Vanier fought back to knot the second set, 5-5, and Mandlikova was hard-pressed before finishing off the match with a superb backhand service return down the

"The first match is always very difficult," said Mandlikova, "Because of my injury I haven't played or practiced much on grass and it was very slippery out there. "It's particularly hard against someone who has nothing to lose." Navratilova played erratically in

the first set, which included a staggering nine breaks of serve. Her service was inconsistent and her volleying poor. She lost four set points - three of them on her own serve - before finally picking up the set.

"I was a little tentative. The bounces were low and I wasn't sure what to do with my service,"

Sports Agent McCormack The Associated Press

Pope Reportedly Retains

ST. PETERSBURG, Fla. — Agent Mark McCormack, molder of the business empires of Arnold Palmer, Bjorn Borg and other sporting greats, reportedly has a new client - Pope John Paul II. McCormack's Cleveland-based companies, International Man-McCormack's Cleveland-based companies, International Management Group and Trans World International, will advise the Catholic Church of the United Kingdom on packaging the pope's 1982 visit to England, Wales and Scotland. The Jacksonville Times-Union and The St. Petersburg Times reported Tuesday.

"Agreement was finalized three nights ago," Monsignor Raiph Brown told the Times from his London office Monday. "It is quite

unprecedented, but we felt a need to generate sufficient money to cover costs associated with the Holy Father's visit."

Brown told the Times that although the church is not responsible for all expenses in the pope's visit, scheduled to begin next May 28, church officials believe they need enough money to cover such expenses as security.

£1 Million a Day

"We are budgeting £1 million per day (\$2 million) for the Holy Father's visit," Brown said. "We all were hornfied when the pope was wounded in Rome and, again, when Queen Elizabeth was stunned by a man firing blanks from his weapon. Precautions will be extensive. Since this is classified as a private visit, we are extensive. pecting the church will be charged for a good deal of police work."

The newspaper said Brown will meet regularly with Ian Todd, vice president for McCormack's London operations, on the development of papal memorabilia. We realize [McCormack's] clients have traditionally been

sports figures, but from among the seven organizations that were considered, his seemed best qualified to advise," Brown said. "We needed expertise in television and videotapes.

Brown said the British church is aware of "some of the trashy, unofficial items" sold during the Pope's 1979 visit to the United States. "While Mr. McCormack's people will give advice and guidance, we will be the ones controlling the development of such items as commemorative plates, printed materials, videotapes and, yes, perhaps even T-shirts, statues and the like," Brown said.
"I would like to think of it like a patronizing of the arts."

Transactions

BASEBALL

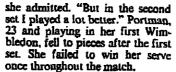
BALTIMORE—Announced that Jeffrey Lock-plicher, has ogreed to contract ferms, and as-aned him to their rookie league form team in

MONTREAL—Signed Derren Dilks, pricher, end Mike Fuentes, outlieder, Assigned Dilks to Memphis of the Southern League, and Fuentes to CHICAGO-Sloned Roper Slevens, putfletger West Palm Beggh of the Florida State League. td John Walsh, second baseman, and ansigned em to Sarasota of the Gulf Coast Rockie

ning back, to a two-year guaranteed co HOCKEY

Horth American Soccer Legans tachion Rockle Legans to punishle cites in the Ap-tachion Rockle Legans.

TORONTO—Announced that Ed Schneider d Chris Phillips, etichers; Charlle Foucette, titleder, and Terry Roley, Stortstop, had read to controct terms. Assisted Schneider d Foucette to Bradenton, Flo., at the Gott EDAIONTON—First Time Lickaski, head coach. Announced that the Petrone peneral manager, will assume the head coaching duries on an interior basis. Announced that Bruce Thomley would replace toy Hoffman as assistant.



Navratilova stuck to her prediction that she can win the tournament for the third time. "Of course I still fancy my chances," she said.

Navratilova, beaten by Jaeger in the semifinals at Eastbourne last week, said, "No one should be judged on their first match. If they were. Borg would not even reach the quarterfinals. The players al-ways pick up later in the tourna-"You don't want to play fantas-tic early on and then fizzle out in

the second week. I'm just getting into the rhythym of the first few rounds." Navratilova will play Susan Mascarin of the United states in the second round; Mascarin received a first round bye. Navratilova said after Tuesday's match that living in a rented house

help. "I'm enjoying myself a lot more this year. "I did the laundry this morning and it made me feel a lot more at



Martina Navratilova ... A 6-4, 6-0 first-round winner.

may be able to show a profit.

out, and "make a few bucks.

during the same period.

plications.

California Angel Vice President

Buzzie Bayası has suggested that his team could endure a 53-day strike, which would take it up to

Aug. 8, the day the coverage runs

lion-a-year contract with the Hous-

ton Astros, would lose \$296,111

plaint has been filed by the general

counsel of the National Labor Re-

wouldn't dare to guess at the im-

bility that the insurance compa-

ruling, could decide that their cus-

strike and could then contest their

diesworth says baseball has been

repeatedly assured that it would be

paid under the terms of the policy.

"We're trying to stay strictly away from addressing that kind of issue," Allianz's Prybutok said.

Talks Set for Wednesday

"It is a very sensitive issue."

The insurance companies aren't

That is only speculation. Mid-

obligations to pay off.

saying anything.

One of the implications Miller

But Miller notes that a com-

Nolan Ryan, owner of a \$1 mil-

The Soccer Scene

Greed Reluctantly Thwarted

By Rob Hughes International Heraid Tribune

LONDON - While John Meenroe has again been upsetting the Englishman's genteel Wimbledon propriety, a bunch of British soccer players have been a world away, in South Africa, trying to commit a far more irresponsible and damaging disservice to the sporting world.

They are 14 professionals who, out of greed, have helped to feed the apartheid that is rapidly polarizing every sport in every country. It is barely five years since the South African issue wrecked an Olympic Games. It is barely five months since the same dispute ruined an English cricket tour of the West Indies. It is barely five weeks since the latest blacklist of those with South African links was declared.

So how on earth could the 14 have claimed they are innocent pawns in a political game?

. British soccer players are not noted for reading anything other than the sports pages, let alone the rulebook that would have told them indisputably that FIFA, the international governing body of soccer, had for the last seven years forbidden any member-country's that Havelange would, over the players from performing in South next few days, continue to hear ex-Africa. Presumably their English actly what Africans the who put clubs, at least, knew the rules. registered players performing-in

Yet within a few hours of the players' arrival, South African newspapers began to headline the "deliance" of FIFA and the sporting blacklist.

George Thabe, president South África's fooball council, described the tour as "the biggest day in South African (soccer) history." He had announced the British would begin a four-match tour against a Transvaal team in Johan-

nesburg Wednesday. Back home in England, despite the fact that McEnroe was hogging the front pages and the South Afri can tour was small beer on the back, the English FA and the players' clubs were suddenly worried. The FA warned that the players

were risking their careers. The clubs began their pathetic explana-

"I have quite clearly indicated to ry Neill.

"I trust my players — but to make sure. I have their promises in writing. I have left messages for them all over South Africa reminding them of the position."

If the word of his trusted missionaries was anything to go by. Neill had nothing to worry about.
"I'm just here to do some coaching," said Nelson. 'I'm not aware of any games being planned. We will be coaching in the schools and youth clubs with a mixture of blacks, colored and whites, which

to my mind sems fair enough."

Hard-Lines

nal nor other leading English clubs, including Middlesbrough,

Norwich, Leicester, QPR and Nothingham Forest, were reas-

sured at Thabe's rejoinder. "The lour goes on." he said. "As far as

Fair enough? Well, neither Arse-

As a postscript, we should ask whether clubs are capable of call-

destroy the game.

Johan Cruyff a week ago accepted Milan's \$100,000 to play a second-rate tournament in italy. He played half a game, argued that Milan knew perfectly well he was unfit after a thigh operation and after forfeiting a hefty slice of his fee, agreed to another huge inducement to play for the North American Soccer League's Washington Diplomats next month.

A wonderful player, but one in decline, has the world's clubs in. the crook of his banking finger. No wonder they so little respect au-

NASL Standings EASTERN DIVISION

	w	L	GF	G.A	6P	Pts
New York	15	4	50	24	41	131
Washington	9	8	29	27	25	75
Moniregi	8	8	27	23	23	. 73
Teronto	4	13	22	41	27	. 44
SOUTHE	RN	DIV	'1\$10	N		٠
Affanta	9	a	34	29	30	.84
FI. Lauderdal	11	7	25	18	21	- 83
Jocksonville	9	8	24	23	21	77
Tampa Bay	8	11	27	38	24 -	68
CENTR	ΔĹ	ועום			٠.,	
Chicago	11	6	36	22	29	. 95
Tutsa	10	7	33	24	28	86
Minnesoto	ě	7	28	30	24.	72
Dollas	2	15	10	38		
WESTE						. "
Los Angeles	7	٠;٠	24	32		. 75
San Diego	ė	ė	29	26		7
San Jose	á	9	24	31		,
California	7	10		31		
NORTHW	-		. 22 		20.	. 62
	23: 11				<u>.</u>	_:
Vancouver		6	34	18		. 96
Seattle	10	9	37	34		92
Portland	8		25	24	24	.72
Calgary	Ð	10	37	27		49
Edmonion	6	10	30	.40	24 .	60

Insurance: Owners' Ace in the Hole

By Mark Heisler

Los Angeles Times Service LOS ANGELES — The baseball strike was 12 days old Tuesday, and Wednesday, when it hits 13, the owners' considerable strike insurance kicks in.

There still have been no substantive negotiations. The owners haven't put forth any new propos-als, and Marvin Miller, head of the players' association, isn't attending meetings - even when there are

That might not look like prog-ress, but Miller suggests that compared to what is coming, with the owners set to collect \$100.000 per cancellation until early August, the first days of the strike could start looking like the good old days.

"They're going to try to starve the players out," Miller said. "They've built toward that from the beginning. A lot of people didn't believe that at first

Strike insurance is unprecedented in baseball. It succors the owners, it scares the players and it has become an issue all by itself.

It has also been suggested that this will be it for baseball insurance. Ray Grebey, the owners' negotiator, said in court two weeks ago that because of all the attention given the strike insurance, he did not know if the owners could buy similar coverage again.

Miller suggested last spring that part of the coverage had been can-celed. But "there have been no cancellations," said Ben Prybutok. secretary of administration for the Los Angeles insurance company of Allianz, which wrote almost \$20 million of the owners' insurance.

sions are often regarded as its own business, but a part of a strike is instilling fear in the other side and the owners don't mind in the least talking about this one. There was a mutual assistance

fund of the clubs' own money, 2 percent of admission prices," said Hal Middlesworth consultant to Grebey's player relations committee. "That fund was in the area of \$15 million. "Then there was an added \$50 million in business-interruption

policy, which becomes effective af-

ter a stipulated period. [The period

was 153 dates, which came out to 13 days; over 153 days, a \$15-million mutual assistance fund would have also paid the owners about \$100,000 per cancellation]. The reason for buying it was that there have been previous

strikes and there was the possibility of another one. This is common practice in industry. I worked 25 years in newspapers and I went through five strikes. In every in-stance, the newspaper had busi-ness-interruption insurance. This is just new in baseball is all." Common or not, unfair or not,

the insurance is a new wrinkle in

A year ago the owners were prepared for a strike over free-agent compensation, but the players did a neat little end run. The owners had assumed the players would strike at the beginning of the season and had made preparations based on that. Opening days are always well attended, but after that attendance in most cities falls until the weather warms up. Miller, instead, decided to start

the season as usual and begin striking on Memorial Day, another bigattendance day and the traditional start of summer and the peak drawing season.

The surprised owners sued for peace at the 11th hour. What they got was basically a postponment of the compensation

issue for one year. Miller complains that they ran out and loaded up on strike insurance. Prybutok says that Allianz was first contacted last fall, about four months after the settlement. "Apparently what was not known initially," Miller says, "is

this is not a traditional labor-management situation, where the workers have a reopener clause to make demands in a particular area and then strike to enforce those demands. In this one, labor had no reopener and no right to strike unless the owners triggered it by saying they were going to make a unilateral change [by instituting their own compensation clause which they did in February]. "We could not have initiated

this in any form or fashion. You have a situation where the employer, who is the only one with the option of triggering this situation, is being insured against such a sit-

opens up a whole can of worms in the insurance industry." Miller continued. "The question is, what happens

if you buy mountains of insurance so you don't have to bargain's That's really what's happened In Florida this spring, Miller said he had heard that part of the

coverage had been canceled and suggested it was because the insurance industry had gotten a clearer idea of who could trigger a strike.

'Make a Few Bucks'

Subsequently, Switzerland General, based in Tarrytown, N.Y., said it had canceled \$19.5 million worth of strike reinsurance. Reinsurance is the practice of an insurance company's hedging its bet by taking out a policy similar to the one it has just sold with another insurance company, as a bookmaker lays off a large bet with other bookmakers.

Assuming the owners do have what they and the insurance people agree they have — which is \$50 million in strike insurance — the owners have a huge advantage in a long strike. None of the owners

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mediator Kenneth Moffett, who six days later. **EMPLOYMENT**

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Baseball Strikes: Watershed Was The 1912 Tigers The Associated Press

session but then canceled it three

hours later, said both sides in the dispute would resume bargaining

here Wednesday afternoon.

lations Board charging the owners DETROIT — The Detroit Tigers staged baseball's first strike on with failing to bargain fairly. Says "There is a hearing this week, the complaint is upheld, I May 18, 1912. It lasted one game and cost the participants \$100 The strike crupted over the suswouldn't dare guess at is the possipension of Ty Cobb, who went

into the stands after a raucously critical fan and slugged him. American League president Ban nies, in the face of such a court tomers had not tried to avoid the Johnson, who was among the spectators, immediately suspended the Detroit outfielder. Three days later. Cobb's teammates voted to strike until he was reinstated. Facing a \$1,000 forfeiture under

league rules if he didn't field a team May 18, Manager Hughie Jennings recruited a team of sandlotters and college students.
The "new" Tigers lost, 24-2. Johnson slapped a \$100 fine on the strikers and threatened to continue it on a day-by-day basis so long as they stayed off the field.

Detroit had an open date May NEW YORK (UPI) — The onagain, off-again negotiations to later date. On the night of May 20, settle the baseball strike are on the Tigers voted to end their strike. again — for Wednesday. Federal Johnson lifted Cobb's suspension

we are concerned there is nothing in the FIFA constitution which can stop them doing this. The players are within their rights in coming to South Africa as individuals to coach and play exhibiton games. The FIFA ban ap-

plies only to teams." Late Tuesday, the tour was called off. In announcing the cancellation. Thabe said his council had no alternative but to abandon the tour because of pressure from the British clubs. the English FA and FIFA. Thabe held out until the 11th hour. The handwriting on

the wall should have been clear to

all concerned far sooner. In 1974, FIFA expelled South Africa because of its "racist" policies. FIFA's authority has been inert, to say the least, when it comes to transgressions of its laws. But even Thabe finally saw it would not this time sit idly by.

For Joao Havelange, the 65year-old Brazilian lawyer who won his mandate as president in 1974, did so only after a long courtship of the black African vote. Somehow, one gets the feeling

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Observer

The Zucchini Glut

By Russell Baker

NEW YORK — After hearing that a Japanese scientist had bred a square watermelon, Prof. Walton C. Galinat, an agricultural geneticist, rolled up his sleeves and bred a square ear of corn. The press, of course, found it highly entertaining. Galinat received the ultimate in publicity, an entire page in People maga-

This passion for producing squared botanical edibles has mesmerized our best minds ever since a scientist bred the square tomato several years ago. Even

then I could see that Galinat hated the idea that someone had beaten him to the square vegetable

I was then trying to turn his gen-ius to serious work for the good of mankind. It was clear to all students of vegetables that there was great work to be done with zucchini. I had come to Galinat with a proposal.

"Galinat," I said, "what is the most urgent problem in vegetables today?"
"Zucchini, of course," he said.

"All your friends grow zucchini all summer long, and one day they look out the window, and the zucchini is attacking the house, and they say, 'How in the name of Moloch, Baal and Beelzebub are we are going to get rid of all that zucchini? and then they say, 'Let's give it to our friends,' and they bring it to your house, and —"
"Exactly, Galinat," I said.
"Dozens of friends all solve the

zucchini problem the same way, and soon — well, you can't throw the zucchini away, can you, Galinat?

"In a world starved for food, that would be criminal," he said. "The only decent way out is to eat every last piece of that zucchini."

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entist who produced a square to-mato and had been frittering away his time trying to breed a square

tomato worm.
"Shame, Galinat, shame!" I cried. "You have been playing. Zucchini is the problem. Not squareness."

* * *

I suggested that he take a new tack with the zucchini problem and breed a zucchini that tasted like honeydew melon. Making a zucchini taste like anything at all was an insuperable problem, he protested. "Try crossing it with a slice of proscutto and maybe it will get the idea and start tasting

like a melon," I suggested.
On my next visit I was delighted to find a giant elongated green plant which smelled very much like watermelon. I congratulated him as a hero of science and started to slice into his luscious new zucchini. "Don't cut my watermelon," he cried. "It's just been injected with boxwood seeds." This is not a newly bred zucchi-

"It's a watermelon full of boxwood seeds."

"Boxwood seeds, Galinat?" He smiled slyly. "I think I'm on the way to breeding the square watermelon."

I took it away for his own good. "Someday you'll thank me for stopping this square passion of yours, Galinat," I told him, and gave him a new approach to the

zucchini problem. "Suppose you bred a zucchini that looked like corn silk," I whispered. "When brought to your house, much of it would blow away on the wind, some of it would fall into the cracks in the

floor and be forgotten, and —"
"Yes, yes," he said, "and any
that got as far as the refrigerator
could be stolen and smoked by small boys." When last I saw him he was headed into the corn patch fired

with the urge to serve humanity. You know the rest. His picture in People magazine holding the square ear of corn. Another genius diverted from its destiny.

Some Giants of Literature Seen Through Two Prisms

By Hilton Kramer New York Times Service

NEW YORK — The Pierpont Morgan Library has fetched up from its vast storehouse of autograph manuscript materials an astonishing survey called "British Literary Manuscripts, 1800-1914." The cast of characters represented in this exhibition is pretty remarkable. Jane Austen and Sir Walter Scott, Charles Dickens and William Makepeace Thackeray, William Wordsworth, Thomas Babington Macaulay and Samuel Taylor Coleridge are all in it, and - among authors from the other end of the period under review so are William Butler Yeats. James Joyce, H.G. Wells, Max Beerbohm and D.H. Lawrence. To accompany this rich an-

thology of literary manuscripts, the Morgan has also mounted a

loan exhibition of David Levine's

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"I don't be

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caricatures of these same writers. Among them are some of the most accomplished — as well as some of the funniest - caricatures this very prolific artist has produced in recent years. Even where one is inclined to dissent from Levine's characterization of certain writers — and one often is — it is nonetheless interesting to compare one's own mental picture of an author with the graphic image created by this specialist in comic distortion.

Rich in Information

For anyone who has grown up. so to speak, with some of these great 19th-century writers, the "British Literary Manuscripts" show is not only rich in historical information, but also is curiously moving. To read a draft of John Keats' poem, "On First Looking Into Chapman's Homer" in the poet's own hand --- as one can at

the exhibition - turns out to be a more affecting experience than one quite expects it to be. The figure of the poet as a great classic of English literature suddenly dissolves in the presence of this manuscript, its place taken by a ghost of a very gifted young man struggling with his first major poetic utterance. The poem is not made greater, to be sure, but the pathos of its composition is made infinitely more vivid.

There are certain manuscripts, moreover, that are so revealing of certain aspects of the personalities of their authors that they are virtually a form of self-portraiture. What innocent reader of Thomas Babington Macaulay's "History of England" would ever have dreamed that the autograph manuscript of this monumental work looks a good deal more like a rough sketch for a Franz Kline painting than like anything ressembling our cliché notions of Victorian rectitude and order? The large scrawling headlong haste in the writing with many words slashed and those remaining barely legible, has a look of such extreme improvisation and disorder that we are scarcely able to square it with our impressions of Macaulay's measured prose. The wayward hand tells us something about Macaulay that the formal literary style of the prose effectively conceals.

Untamed Quality

In his caricature of Macaulay. Levine has very deftly captured something of this untamed quality in the man, while at the same time conveying a sense of the solemnity of the writer. This is a case where the artist's drawing nicely aligns itself with the personality we glimpse on the manuscript page. Yet in turning from the manuscript to the caricature, we also discover the limits of the caricature as a mode of critical discourse. For it is unquestionably the manuscript that leaves us with the more vivid sense of the writer's contradictory traits. The drawing is more amusing, but the manuscript, oddly enough, is more dramatic in its revelations. Of all the manuscripts displayed in this exhibition, none

Levine's Macauley, with page from his "History of England." makes a more exquisite impression on the eye than the page from Arnold Bennett's autograph manuscript of his novel "Clayhanger," from the year 1910. The hand is so beautiful, the line so orderly, the placement of the

words so confident and the very quality of the paper so elegant that we are left, somewhat to our surprise, with an impression of extreme aestheticism - not something generally associated with this notoriously successful author. And the aesthetic look of the manuscript is all the more amazing when we discover the rate of speed at which Bennett customarily wrote his books. The first 40,000 words of "Clay-hanger," for example — the manuscript in this exhibition — were written in little more than a month. That is a production schedule that leaves one's hand aching even to think about - yet

Bennett accomplished it.

with what a calm, unhurried

splendidly formed calligraphy

Complex Figure The Arnold Bennett we see in Levine's caricature bears little relation to the personality we glimpse in the writing, however. Levine's Bennett looks more like the self-satisfied, prosperous hack invented by his Bloomsbury enemies. (It bears a certain resemblance to some of Max Beerbohm's caricatures of Bennett, too.) Bennett was a very complex figure — a self-made man and a highly successful writer, who at times was quite as pompous as

Levine makes him out to be. But without some hint of the aesthete in Bennett, without some sense of the serious literary artist, no account of the man is complete and it is this aspect of Bennett that is missing from Levine's drawing. In this case he has set-tled for the standard view.

Elsewhere among the drawings there are some quite wonderful images of George Eliot, Oscar Wilde, Charles Dickens, H.G. Wells, Leslie Stephen - Stephen's dolorous personality is very graphically captured - and other literary eminences, and the whole show of them is vastly entertaining for anyone who knows their work. Yet it is to the manuscripts that we return for a sustained account of the real life of the literary mind. Whether it is a poem by Emily Bronte in which the tiny words line up like minuscule insects in bizarre formation or a page from Thackeray's "Vanity Fair" in which the drawing of a face suddealy looms among the words marching across the paper, these manuscripts recall us to the labor, the isolation, the concentration - the heroism - of the literary vecation. Somehow one doubts that the printouts now being coughed up by word-processing machines are going to mean quite as much to future readers.

"British Literary Manuscripts, 1800-1914" and "David Levine: Caricatures of British Authors" remain on view at the Morgan Library through July 31.

PEOPLE:

Buyer Pays \$5,000 For 'Big Three' Ruble

Christopher Fave of Mankato. Minn. paid \$5,000 for a 10-ruble note signed by Winston Churchill, Franklin D. Roosevelt and Joseph Stalin at the Sotheby Parke Bernet auction of Printed and Manuscript ruble bank note, worth \$6.50 at today's exchange rate, was signed by the three leaders at the Yalta conference in 1945. It is believed to be men's signatures, according to Sotheby's. The autographs were obtained by Harry L. Hopkins, Roosevelt's special assistant, for his teen-age son. Robert. Fave also paid \$700 for a rare letter by New York state Supreme Court Justice Joseph Force Crater, who disappeared in 1930. The three-page Crater letter is the last known to have been written by the judge and the only Crater autograph ever to come to auction. He was last seen stepping into a taxi in Manhattan. It says in part: "The following money is due me from the persons named. Get in touch with them for they will surely pay their debts. It concludes: "Am yery weary, Love, Joe. This is all" confidential.

Former U.S. first lady Bess Truman, 96, has returned home. Mrs. Truman was hospitalized in Independence, Mo., on May 6 when she broke her right hip in a fall while attempting to get out of bed. She underwent surgery May 7.

Prince Charles and former King Constantine of Greece, who lives in England, dived 40 feet to the wreck of a 16th-century warship the Mary Rose, and spotted the skeletons of some of the 600 crewmen who went down. They took the dive in a waterway linking Portsmouth to the English Chan-nel. The ship sank in 1545 during a battle with the French. The 32year-old heir to the British throne president of the Mary Rose Trust Fund, which is seeking \$6 million to pay for raising the wreck and exhibiting it in a museum.

Former French President Valéry Giscard d'Estaing and his wife, Anne-Aymone, arrived in Athens' for a 10-day private visit to

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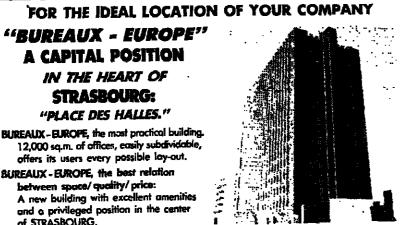
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